N A O

National Audit Office

MALTA

Annual Audit Report

Public Accounts 2010

Contents

List of Abbreviations

AAR	Annual Audit Report
AFM	Armed Forces of Malta
AIN	Asset Identification Number
AP	Age Pension
ARO	Assistance and Rescue Officer
ARR	Arrears of Revenue Return
AWAS	Agency for the Welfare of Asylum Seekers
BFID	Benefit Fraud and Investigation Department
BOM	Board of Management
BOT	Board of Trustees
BRS	Bank Reconciliation Statement
BWA	Broadband Wireless Access
CA	Children's Allowance
CBM	Central Bank of Malta
CC	Cost Centre
CCF	Corradino Correctional Facility
CCoF	Central Co-operatives Fund
CCTV	Closed Circuit Television
CDB	Common Database
CDC	Closed Detention Centre
CIR	Commissioner of Inland Revenue
COJ	Courts of Justice
CPD	Civil Protection Department
CSD	Cleansing Services Directorate
CTD	Capital Transfer Duty
CV	Commitment Voucher(s)
CVA	Controlled Vehicular Access
CVB	Conservatorio Vincenzo Bugeja
DAS	Departmental Accounting System
DCA	Disabled Child Allowance
DCS	Director Corporate Services
DGRS	Director General Resources and Support
DGSS	Director General Strategy and Sustainability
DLG	Department for Local Government
DMO	Debt Management Office
DOs	District Offices
DPD	Director Projects and Development
DPPM	Directorate for Pharmaceutical Policy and Monitoring
DS	Detention Service
DSS	Department of Social Security
EBU	Extra Budgetary Unit
EFSF	European Financial Stability Fund
ECMS	Embassies and Missions Cash Management System
ELC	Environmental Landscapes Consortium
ENC	Engine Capacity
EOD	Explosive Ordinance Disposal

EOS	Exemption Order Scheme
ERDF	European Regional Development Fund
ESF	European Social Fund
ETC	Employment and Training Corporation
EU	European Union
FAR	Fixed Asset Register
FB	Fringe Benefit
FEC	Fully-Expensed Car
FfMS	Foundation for Medical Services
FMA	Free Medical Aid
FMCU	Financial Monitoring and Control Unit
FMMU	Financial Management Monitoring Unit
FMS	Fleet Management System
FPMD	Financial Policy and Management Division
FR	Financial Report
FRIN	Fuel Requisition and Issue Note
FSI	Financial Situation Indicator
FSS	Final Settlement System
GAPSE	General Accounting Principles for Smaller Entities
GFL	Government Out-Patients Formulary List
GFRs	General Financial Regulations
GGH	Gozo General Hospital
GPD	Government Property Division
GPS	Government Pharmaceutical Services
GSPO	Goods and Services Purchase Order
GU	General Use
HD	Health Division
HM	Heritage Malta
HO	Head Office
HOM	Head of Mission
HPC	Homes Programme Co-ordinator
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IPSL	Industrial Projects and Services Limited
IRD	Inland Revenue Department
ISC	Invoice Status Certificate
IT	Information Technology
ITS	Institute of Tourism Studies
KOLS	Koperattiva Linen Services
KOPTASIN	Kooperativa Tabelli u Sinjali
LA	Letter of Acceptance
LARO	Leading Assistance and Rescue Officer
LCA	Local Councils' Association
LEP	Locally Engaged Personnel
LES	Local Enforcement System
LGA	Local Government Auditor
LN	Legal Notice
LPO	Local Purchase Order
MAS	Medicines Approval Section
MBO	Malta Based Officer

MCA	Malta Communications Authority
MCAST	Malta College of Arts, Science and Technology
M/D	Ministries/Departments
MDH	Mater Dei Hospital
ME	Malta Enterprise
MEEF	Ministry of Education, Employment and the Family
MELP	Malta Embellishment and Landscaping Project
MEPA	Malta Environment and Planning Authority
MFA	Ministry of Foreign Affairs
MFCC	Malta Fairs and Convention Centre
MFEI	Ministry of Finance, the Economy and Investment
MFIN	Ministry of Finance
MGI	Malta Government Investment
MGOZ	Ministry for Gozo
MGS	Malta Government Stocks
MHEC	Ministry for Health, the Elderly and Community Care
MIA	Malta International Airport
MITA	Malta Information Technology Agency
MITC	Ministry for Infrastructure, Transport and Communications
MJHA	Ministry for Justice and Home Affairs
MMDNA	Malta Memorial District Nursing Association
MOJ	Members of the Judiciary
MP	Multi-payment
MRRA	Ministry for Resources and Rural Affairs
MSP	Ministry for Social Policy
MTA	Malta Tourism Authority
NAO	National Audit Office
NBV	Net Book Value
NGO	Non-Governmental Organsiation
NL	Notification Letter(s)
NMWP	National Minimum Widows Pension
NSO	National Statistics Office
OAG	Office of the Attorney General
OPM	Office of the Prime Minister
PA	Personal Assistant
PAHRO	Public Administration Human Resources Office
PI	Performance Indicator
POYC	Pharmacy of Your Choice
PPCD	Planning and Priorities Coordination Department
Pre ’99	‘Old’ Assessment System (Up to Year of Assessment 1998)
PS	Permanent Secretariat
PSMC	Public Service Management Code
PV	Payment Voucher
RP	Retail Price
RHKG	Rehabilitation Hospital Karin Grech
SA	Social Assistance
SABS	Social Assistance and Benefits System
SAS	‘New’ Self Assessment System (from Year of Assessment 1999 till 2009)
SE	Service Executive
SL	Sick Leave
SLH	St. Luke’s Hospital
SMG	Students’ Maintenance Grants

SMGB	Students' Maintenance Grants Board
SO	Station Officer
SPBH	Sir Paul Boffa Hospital
SSA	Social Security Act
SSC	Social Security Contribution
SSD	Strategy and Sustainability Division
SUP	Single Unmarried Parents
TCNs	Third Country Nationals
TOIL	Time Off In Lieu
TVLU	Television Licensing Unit
UA	Unemployment Assistance
UIF	Urban Improvement Fund
UoM	University of Malta
VAT	Value Added Tax
VL	Vacation Leave
WSC	Water Services Corporation
Y/A	Year(s) of Assessment

Guide to using this Report

This Report summarises the conclusions reached following our Financial and Compliance audits. We sought to spread our reviews across Government 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 2010, 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

Highlights 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

The **Financial Report** (FR), incorporating Financial Statements and Accounts for the year 2010, was submitted by the Accountant General in terms of the Financial Administration and Audit Act, 1962. Following examination, in terms of the Auditor General and National Audit Office Act, 1997, NAO noted that:

- a detailed analysis of variations for 2010 is still required by the Ministry of Finance, the Economy and Investment (MFEI) in respect of certain items of Revenue, although an improvement over last year was observed in explanations given;
- variance analysis systems at Ministerial and Departmental levels still need to be improved, as evidenced by the substantial excesses of actual over budgeted figures of certain items of Expenditure;
- although numerous Court and Other Deposit Accounts were closed during the year, many others, amounting to €608,696, experienced no movement for four consecutive years;
- notwithstanding reported action being taken by Treasury, Cash Book and Central Bank balances reported in FR 2010 still do not tally with corresponding figures in the December 2010 Bank Reconciliation Statement; and
- Letters of Comfort and Bank Guarantees have reached €1,037 million (against €893 million in 2009). These constitute Contingent Liabilities for Government.

This year's analysis of the FR also includes salient points which emerged during the compilation of a questionnaire on Public Debt Management. (page 16)

In contrast to previous years, only four Ministries/Departments defaulted from complying with Treasury Circular No. 3/2011 regarding the annual submissions of **Arrears of Revenue Returns for 2010**. Notwithstanding this, verification of a number of Returns forwarded to NAO could not be tested, due to the lack of supporting information provided by Departments which was requested for audit purposes. In such cases, figures had to be published as given. Findings relating to the respective Ministries and Departments are being separately reported upon. NAO would also like to see Government departments/entities give higher priority to the timely collection of revenue. (page 54)

By the time this Report was prepared, the audited **Financial Statements** of two out of 68 **Local Councils** were not yet submitted to NAO when these should have been received by 2 May 2011. Only 19 out of 68 audited accounts were delivered by this deadline. Another 24 Local Councils submitted the audited Financial Statements by end of May 2011, while the other 23 kept delaying the submission. (page 86)

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

- LGA could not express an opinion of the Financial Statements as presented by two of the Local Councils, due to the various material shortcomings encountered.

- Another 61 Audit Reports were qualified with an 'except for' audit opinion.

- Seven Local Councils recorded a negative Working Capital in the Statement of Financial Position.

- Seventeen Local Councils registered a Financial Situation Indicator below the 10% benchmark.

- Sixteen Local Councils registered a deficit in the Statement of Comprehensive Income.

In contrast with the decreasing trend in the number of **Third Country Nationals** in Closed Detention Centres, which went down to 58 by the end of 2010, as compared to an average number of 393 as at the beginning of the same year, the contract for the supply of daily meals to these irregular immigrants covered a maximum of 2,500 persons. To honour this agreement, the provision of meals was extended to the more vulnerable of the residents housed in selected Open Centres and the inmates at the Corradino Correctional Facility. This approach was taken in order to exhaust the agreed 75% of the original contract value; the latter quoted at €11,315,000, which was initially intended to cover 24 months.

Furthermore, a procedure indicating the stock requirements for any potential contingency of irregular immigrants' arrivals was not in place. A proper stock control system was also lacking for store items falling under the responsibility of the Detention Service. (page 166)

From an examination of the records, retained by the Head Office of the Ministry of Foreign Affairs, relating to the **Embassies** in **The Hague** and **Lisbon**, it transpired that at times source documentation was not available or was only kept by the Mission. Consequently, completeness of revenue collected and/or correctness of payments made by the respective Missions, and compliance with standing rules and regulations, could not be ascertained. (page 176)

Procurement regulations were not always followed by the **Ministry for Gozo**. Certain goods and services exceeding the threshold of €6,000 were procured direct from the open market without a public call for quotations or tenders. Substantial monthly payments were not corroborated by additional documentation other than the invoice, also implying that thorough checking was not carried out prior to disbursement of funds. (page 192)

Payments issued to a consultant rendering services to the **Ministry for Infrastructure, Transport and Communications** by-passed the purchases ledger and were not even backed by a fiscal invoice. Increased costs concerning Inter-Departmental Mail were not officially agreed upon, while only an expired agreement was in place. Lack of control was also noted over the issue of payments relating to cleaning and lift maintenance services. In addition, log books controlling the use of government-owned vehicles were not properly maintained. (page 204)

Procurement regulations were not followed by the **Malta College of Arts, Science and Technology (MCAST)** in the engagement of a consultant providing his professional expertise and assistance in the implementation of a European Social Fund project. Payments to this consultant could not be verified by NAO since no attendance sheets were kept. Perks, including free internet facilities and telephone calls consumption, enjoyed by three MCAST officers, were not formally authorised. In addition to shortcomings in the management of petty cash, the audit also revealed instances where lecturers claimed payment for evening courses delivered on dates which were outside the term of their agreement. (page 210)

A review was performed on the **Fejda Programme** and **Jeanne Antide Home** Financial Statements for 2010 presented to NAO by the Board of Management. Various observations were made, amongst which, include lack of communication between the **Ministry of Education, Employment and the Family** and the Board of Management, the appointment and suspension from employment of the Homes Programme Co-ordinator and the appointment of the Service Executive which was not formalised. Furthermore, an analysis of expenditure was not made available, posing a limitation on the audit scope since the necessary testing could not be carried out. (page 217)

Due to the considerable number of weaknesses revealed by the audit carried out on the **Students' Maintenance Grants**, NAO considers that the administration and monitoring of the Smart Card Scheme is rather ineffective and the costs in administering the Scheme could be outweighing the benefits derived. Alleged inspections carried out on the retail outlets accepting the Smart Card, intended to curb and eliminate abuses, were inadequate and unsatisfactory. The provision and administration of the Smart Card Scheme system by a Management Company was also characterised by a number of shortcomings, while variations from the service provider's original bill of quantities and the provision of services not included in the tender document were also noted. Besides lack of transparency in the engagement of the inspectors carrying out verifications at retail outlets, NAO further identified inefficiencies in the actual payment of maintenance grants to students. (page 223)

An audit on **Free Medical Aid** granted to out-patients through the Pink and/or Yellow Cards revealed various shortcomings. Poor internal controls were in place with respect to means testing procedures and the issue of Pink cards, especially to diabetic patients in Gozo. In addition, it transpired that the Yellow card is also being approved in connection with certain conditions other than those officially approved under Schedule V. Cases whereby free drugs were dispensed prior to the necessary approval, and instances where Protocol regulated medicines were either dispensed without a valid permit, or prescribed by a consultant who did not meet the prescribed criteria, were encountered. (page 236)

Accounting inaccuracies were observed during an audit on the Financial Statements of the **Co-Operatives Board**. Amongst others, the shortcomings relate to the non-disclosure of a bank account in the Financial Statements, some expenses paid from the Co-operatives Board's Funds without the proper authorisation, the lack of a proper Fixed Asset Register and inadequate inventory management. (page 247)

An audit on **Children's Allowance** payments revealed that the Social Security Act does not provide for penalties when claimants are found to be in breach of its provisions. NAO also noted that when claimants are notified of any overpayments by the Social Security Department, they are not specifically requested to refund the amount overpaid. A number of inaccurate payments identified during the audit were brought to the attention of the Department. (page 253)

Lack of compliance with procurement regulations, as well as inadequate control over expenditure incurred by specific Cost Centres on behalf of other locations, was noted during an audit at the **Health Division**. Cases of excess VAT payments on foreign services were also encountered. (page 257)

Replies to a questionnaire on **Fully-Expensed Cars within Extra Budgetary Units (EBUs)** revealed numerous shortcomings, namely, the lack of Ministerial control over the vehicles in question, maximum retail price, engine capacity and fuel consumption limits being exceeded and taxable fringe benefit control shortfalls. A number of respondents also failed to provide the relative information required by NAO. (page 268)

From an analysis of documentation provided by a selected sample of **Departments and EBUs** within the various Ministries, in connection with **Official Travel Abroad**, a number of shortcomings transpired. Besides others, these included incorrect claims of subsistence allowance as well as the non-submission of the official visit programme and/or the related statement of expenses and reports on the visit. (page 275)

The Directorate Programme Implementation within the **Ministry of Finance, the Economy and Investment** was responsible for the processing of payments relating to the **European Regional Development Fund Energy Grant Scheme**, which is co-funded by the EU Commission under the Cohesion Policy 2007 - 2013. Except for an incorrect posting of a Commitment Voucher pertaining to another project under the Energy Grant Scheme Account, no other irregularities were encountered following testing on the Scheme. (page 282)

The implementation of **Phase Two** of the **Exemption Order Scheme**, launched by the **Minister of Finance, the Economy and Investment** in July 2010, was extended to employers with outstanding balances from the Final Settlement System (FSS) and Social Security Contribution (SSC) to regularise their position with the Inland Revenue Department (IRD). From a review of the implementation process, it transpired that a complete analysis of taxpayer populations was still not completed before sending Notification Letters/Agreements to taxpayers to participate in the Scheme. Moreover, the Scheme was not officially extended from end November 2010 till 4 August 2011, even though IRD was acknowledging the relevant returns. (page 284)

Official standard rates have not yet been established for various professional services rendered to the Criminal Court. The tariffs actually applied are taxed by the Court after negotiating the fee due with the respective **Court Experts**. The absence of basic controls, such as lack of segregation of duties at the Courts, has led to undetected errors as well as non-compliance with standing rules and regulations. The basis of certification of a number of invoices could also not be determined since source documentation substantiating the payment was not readily available. (page 292)

The expenditure audit at the **Office of the Attorney General** revealed that the payment for cleaning services provided during 2009 and 2010 exceeded the maximum amount indicated in the direct order approval. Another shortcoming noted was the insufficient quotations obtained for air travel. (page 301)

From a review on Personal Emoluments at the **Civil Protection Department**, a number of shortcomings transpired. These related to incorrect salary payments, incomplete and/or not updated records, specific procedures not backed up by official regulations, certain provisions not being complied with and lack of control over particular administrative procedures. (page 306)

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 (ISAs) and International Standards of Supreme Audit Institutions (ISSAIs) were followed in the conduct of the audits. These Standards require that audits are planned and performed to obtain reasonable assurance whether statements and accounts of Government Ministries and Departments, as well as of other entities which were subject to NAO audits, are free from material error.

An audit involves performing procedures to obtain relevant, reasonable and reliable 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 this 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
14th December 2011

Financial Report

Analysis of the Financial Report 2010

Introduction

Statements of the Consolidated Fund Account, showing the comparative positions in 2009 and 2010, and the receipts and payments of funds created by law were laid on the Table of the House of Representatives during Sitting No. 337 on 11 April 2011 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 2010 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. 376 on 4 July 2011.

A comprehensive review of Government financial operations can be made by reference to both the Annual Financial Statements and the FR for 2010.

Consolidated Fund Statement – 2010

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 2010 Budget (Original Estimates) for an expenditure of €3,803,814,724 as authorised by Warrant No. 1 issued on 7 December 2009, and a further €109,829,000 approved by Supplementary Estimates Warrant No. 2 dated 30 November 2010, it was estimated that revenue was to exceed expenditure by €18,029,000. Following the closure of the 2010 Accounts, it resulted that in actual fact revenue had exceeded expenditure by €71,065,000 as detailed in Table 1. Notwithstanding this, an end of year consolidated deficit of €125,231,000 was reported. (*Table 1 refers*)

Table 1 – Consolidated Fund 2010

		Estimated (Original & Supplementary)		Actual	
Opening Consolidated Deficit Balance as on 01/01/10	**€ 000's**				(196,297)
Revenue					
Ordinary (incl. Grants)	**€ 000's**	2,674,937		2,525,356	
Extraordinary	**€ 000's**	550,000	3,224,937	577,687	3,103,043
Expenditure					
Recurrent	**€ 000's**	2,365,189		2,316,112	
Public Debt Servicing [a]	**€ 000's**	407,063		404,196	
Capital	**€ 000's**	434,656	3,206,908	311,670	3,031,978
Surplus 2010	**€ 000's**		18,029		71,065
Closing Consolidated Deficit Balance as on 31/12/10	**€ 000's**				(125,231)

Figures in Statement may not add up due to rounding up.
(Source: FR 2010, pg xxiii)

[a] These exclude €907,000 (Estimates)/€1,165 (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 2010, 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 2010.

National Audit Office (NAO) satisfactorily noted a further improvement in explanations given in respect of variations in Revenue for the Financial Year 2010, even though no explanations were provided in the areas indicated in Table 2. NAO continues to encourage an improved approach in variance analysis.

Table 2 – Variances in Revenue for Financial Year 2010

Revenue		Budget Estimates	Actual	Variation
Non Tax Revenue				
Reimbursements of which:				
Jobbing	**€ 000's**	500	262	(238)
Services rendered to Local Councils	**€ 000's**	800	480	(320)
Repayments of, and interest on, Loans made by Government	**€ 000's**	82	439	357

(Source: FR 2010, pgs xvi-xvii)

Expenditure

The appropriations for expenditure during 2010, authorised by the issue of Warrant Nos. 1 and 2 by MFEI, were appropriated under the following Statutes:

		€
i)	Appropriation Act (Voted Services)	1,995,586,362
ii)	In terms of Special Laws	1,233,472,000
iii)	In terms of the Constitution	2,049,638

Analysis of Appropriations

i) Appropriation Act (Voted Services)

	€
Appropriated by Act XIX of 2009	1,901,907,362
Appropriated by Act XVI of 2010 (Second Appropriation Act)	93,679,000

ii) 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)	450,000
Expenses of the Broadcasting Authority – Broadcasting Act, 1992 (Act XII of 1991 – Cap. 350)	650,000
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)	144,000
Social Security Act, 1987 (Act X of 1987 – Cap. 318)	733,900,000
Pensions Ordinance (Cap. 93)	84,000,000
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)	384,250,760
Interest plus contribution to the Sinking Funds i.r.o. Foreign Loans (Cap. 213)	13,719,240
Malta Arbitration Centre (Act II of 1996 – Cap. 387)	70,000
Expenses of the National Audit Office (Act XVII of 1997 – Cap. 396)	2,400,000
Refunds under VAT/CET Acts	1,400,000
Widows' and Orphans' Pensions Act (Cap. 58)	515,000
Personal Injuries (Emergency Provisions) Ordinance (Cap. 111)	55,000
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)	1,350,000
Short Term Borrowing – Treasury Bills Act (Cap. 133)	10,000,000
TOTAL	**1,233,472,000**

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	69,496
The Attorney General	47,406
Judges and Magistrates	1,866,707
The Public Service Commission	66,029
	2,049,638

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 2010	Revised Estimates 2010	Actual 2010	Variation Actual 2010/ Revised Estimates 2010	Variation Actual 2010/ Original Budget 2010	Variation Actual 2009/ Original Budget 2009
Vote 5: Office of the Prime Minister							
Item 6554: Malta Environmental and Planning Authority	€	-	7,000,000	6,999,999	(1)	6,999,999	4,800,000
Item 6778: Industrial Projects and Services Ltd.	€	6,457,000	7,957,000	7,707,999	(249,001)	1,250,999	937,738
Vote 7: Armed Forces of Malta Item 12: Salaries and Wages	€	23,300,000	24,500,000	25,824,690	1,324,690	2,524,690	2,250,947
Vote 8: Tourism Item 5522: Malta Tourism Authority – Route Development	€	2,000,000	4,445,000	4,444,999	(1)	2,444,999	-
Item 6794: Malta Tourism Authority	€	26,000,000	27,800,000	27,800,000	-	1,800,000	-
Vote 13: Ministry of Foreign Affairs Item 12: Salaries and Wages	€	7,999,997	8,799,997	8,738,335	(61,662)	738,338	(99,672)
Vote 14: Ministry for Gozo Item 12: Salaries and Wages	€	38,449,997	39,899,997	39,532,210	(367,787)	1,082,213	966,138
Vote 15: Ministry for Infrastructure, Transport and Communications Item 5236: Guaranteed Earnings Agreement with the Public Transport Association	€	-	3,300,000	8,262,761	4,962,761	8,262,761	2,417,953
Item 5531: Authority for Transport in Malta – Administrative Fee	€	2,000,000	2,000,000	7,670,000	5,670,000	5,670,000	-

Vote, Item		Original Budget 2010	Revised Estimates 2010	Actual 2010	Variation Actual 2010/ Revised Estimates 2010	Variation Actual 2010/ Original Budget 2010	Variation Actual 2009/ Original Budget 2009
Vote 18: Ministry for Resources and Rural Affairs							
Item 12: Salaries and Wages	€	40,802,997	42,102,997	41,952,934	(150,063)	1,149,937	792,183
Item 16: Allowances	€	2,419,000	2,819,000	2,923,787	104,787	504,787	335,161
Item 5250: Landscaping Malta	€	7,000,000	7,000,000	7,673,679	673,679	673,679	1,171,491
Vote 19: Ministry of Education, Culture, Youth and Sport							
Item 12: Salaries and Wages	€	2,899,903	3,449,903	3,431,690	(18,213)	531,787	293,466
Item 5024: Students' Maintenance Grants	€	21,450,000	23,050,000	22,410,465	(639,535)	960,465	8,934
Item 5389: Public Service Obligation – Public Broadcasting Services Ltd	€	1,164,000	2,713,999	2,720,999	7,000	1,556,999	(2)
Vote 20: Education							
Item 12: Salaries and Wages	€	102,500,000	109,300,000	109,469,504	169,504	6,969,504	2,652,699
Item 15: Social Security Contributions (SSC)	€	9,430,000	9,930,000	9,937,721	7,721	507,721	127,580
Item 16: Allowances	€	6,000,000	6,300,000	6,582,507	282,507	582,507	441,595
Vote 23: Social Security							
Item 5137: State Contribution in terms of the Social Security Act, 1987	€	183,000,000	184,700,000	183,904,226	(795,774)	904,226	(802,367)
Vote 24: Social Security Benefits							
Item 5143: Bonus	€	37,000,000	46,050,000	46,839,614	789,614	9,839,614	6,326,070
Item 5145: Widows Pensions	€	102,000,000	104,350,000	102,558,345	(1,791,655)	558,345	242,479

Vote, Item		Original Budget 2010	Revised Estimates 2010	Actual 2010	Variation Actual 2010/ Revised Estimates 2010	Variation Actual 2010/ Original Budget 2010	Variation Actual 2009/ Original Budget 2009
Item 5147: Old Age Pensions	€	19,000,000	19,000,000	19,717,040	717,040	717,040	489,529
Item 5148: Disability Pensions/Allowance	€	10,000,000	10,000,000	10,965,805	965,805	965,805	364,571
Item 5149: Social Assistance	€	59,500,000	59,500,000	67,193,774	7,693,774	7,693,774	(1,454,142)
Item 5150: Medical Assistance	€	16,700,000	16,700,000	17,280,373	580,373	580,373	(69,931)
Item 5151: Bonus	€	8,900,000	8,900,000	9,753,592	853,592	853,592	235,768
Vote 26: Health							
Item 12: Salaries and Wages	€	82,500,000	86,800,000	83,961,287	(2,838,713)	1,461,287	(696,895)
Item 16: Allowances	€	30,000,000	30,000,000	36,002,726	6,002,726	6,002,726	4,383,132
Item 6771: Karen Grech Rehabilitation Centre [Zammit Clapp Hospital]	€	11,400,000	11,400,000	12,295,466	895,466	895,466	(200,183)
Vote 27: Elderly and Community Care							
Item 30: Contractual Services	€	1,305,000	2,305,00	2,938,941	633,941	1,633,941	232,692
Item 5064: Home Care/Help Services Scheme	€	5,000,000	5,500,000	5,645,775	145,775	645,775	290,938
Vote 29: Ministry of Finance, the Economy and Investment							
Item 25: International Memberships	€	3,000	2,315,000	2,314,863	(137)	2,311,863	(7,063)
Item 5463: Energy Support Measures	€	10,000,000	13,200,000	12,262,670	(937,330)	2,262,670	-
Vote 30: Treasury Item 5572: Loan Facility Agreement with the Hellenic Republic	€	-	24,200,000	19,769,652	(4,430,348)	19,769,652	-

Vote, Item		Original Budget 2010	Revised Estimates 2010	Actual 2010	Variation Actual 2010/ Revised Estimates 2010	Variation Actual 2010/ Original Budget 2010	Variation Actual 2009/ Original Budget 2009
Vote 32: Public Debt Servicing Item 3647: New Stock Issues - Interest	€	9,414,777	9,414,777	14,675,240	5,260,463	5,260,463	(2,665,302)
Vote 41: Ministry for Justice and Home Affairs Item 5152: Compensation to Victims of Crime	€	11,000	11,000	609,287	598,287	598,287	(11,000)
Vote 43: Police Item 12: Salaries and Wages	€	29,400,000	31,900,000	31,603,331	(296,669)	2,203,331	802,174
Capital Vote I: Office of the Prime Minister Item 7004: Construction works and equipment	€	900,000	1,150,000	2,515,972	1,365,972	1,615,972	(191,980)
Capital Vote VII: Ministry for Social Policy Item 7139: Construction works in Government Cemeteries	€	35,000	35,000	1,488,845	1,453,845	1,453,845	(1,339)
Capital Vote VIII: Ministry of Finance, the Economy and Investment Item 7004: Construction works and equipment	€	444,000	444,000	950,706	506,706	506,706	559,356
Item 7189: Contribution towards Treasury Clearance Fund [(TCF) Advances]	€	16,000,000	16,000,000	24,755,002	8,755,002	8,755,002	(77,125)
Item 7096: Investment Incentives (Subvention) (Malta Enterprise)	€	9,000,000	9,000,000	10,152,319	1,152,319	1,152,319	4,855,335

Vote, Item		Original Budget 2010	Revised Estimates 2010	Actual 2010	Variation Actual 2010/ Revised Estimates 2010	Variation Actual 2010/ Original Budget 2010	Variation Actual 2009/ Original Budget 2009
Item 7104: Acquisition of property for public purposes (Government Property Division)	€	10,000,000	10,000,000	10,572,415	572,415	572,415	4,595,882

NAO satisfactorily noted provisions within MFEI Circular No. 2/2011 entitled 'Monthly Revised Estimates of Revenue and Expenditure', intended to adopt a professional approach in variance analysis *"...especially in those cases where such systems of regular monitoring have yet to be implemented. Areas necessitating attention, as highlighted through the variance analysis reports themselves, may then be reported upon to this Ministry's Budget Affairs Division through the Revised Estimates Statements already referred to."*

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

NAO recommends that the adoption of such a variance analysis exercise is given the necessary importance, enabling effective, adequate and timely top management follow-up of resulting variances together with their cause.

Assets and Liabilities

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

This Statement may be looked upon as a statement of end-of-year balances in the Treasury books 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 2010 – Appendix I - refers).

Table 4 – Statement of Assets

	2010	**2009**
	€ 000's	**€ 000's**
Public Credit		
Share Holding	369,027	316,935
Other Investments	292,996	288,891
Loans	24,861	5,092
	686,884	610,918
Investments held on behalf of		
Sinking Funds (Local)	119,072	111,270
Sinking Funds (Foreign)	45,852	49,273
Trust Funds	1,272	1,246
Court & Other Deposits	37	281
	166,232	162,071
Advances		
Advances	186,867	223,316
Loans	-	-
	186,867	223,316
Bank and Cash		
Banks	2,385	1,806
Cash at Treasury	-	-
Central Bank of Malta – Public Account	130,699	136,629
	133,084	138,436
TOTAL ASSETS	**1,173,068**	**1,134,741**

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

Ministerial/Departmental Bank Accounts

An audit relating to Ministerial/Departmental Bank Accounts was conducted by NAO in 2009 relating to Financial Year 2008. The purpose of this audit was to ensure that the foregoing Bank Accounts, whether with the Central Bank of Malta (CBM) or Commercial Banks, were reported upon in the FR; and ascertain whether sound internal control systems were in place to ensure that Ministries/Departments correctly submitted 'Statement 2', as per Treasury Circular No. 1/2009 'End of Year (2008) Statements of Account – Stores Written off and Cash Losses/Bank Balances'. The audit identified a number of issues, amongst which Treasury was relying entirely on the information submitted by CBM for reporting purposes, not making the best use of 'Statement 2' submissions.

In response, during 2009, a database and a data input program were created in-house by Treasury in order to collect information on all bank accounts held by Ministries and Departments. The new procedure was fully implemented with the issue of Treasury Circular No. 1/2010 on 5 January 2010.

In an email dated 22 July 2010, Treasury informed NAO that *"…for the first time, government has a comprehensive list of all bank accounts under its charge."* and that they intended *"…to include a total for the amount in respect of bank balances held by Ministries/Departments in the Financial Report."* It was also stated that prior to include such balances, Treasury needed to analyse the nature of the accounts to determine which of them are in actual fact public funds, and others that are held in trust or simply administered by Government.

Following NAO review, it resulted that no such total in respect of bank balances held by Ministries/Departments featured in the FR 2010. When querying this matter, Treasury commented that the exercise of analysing the nature of the bank accounts has been initiated but had not yet been concluded by the time of publication of the FR 2010. Treasury also submitted the following comments: *"Due diligence is being taken when reporting the balances of these accounts to avoid any under/over-reporting of the balances. Some accounts though having positive balances, are merely accounts for which Government has a defined obligation to pay to third parties or others that are simply administered by Government."*

"When Treasury will be in a position to report the bank balances, it will proceed to report the bank balances as one total. It will also be indicating separately the balances (in total) for each category for cases where these accounts are only administered/held by Government. This will enable the reader to derive that actual net bank balances belonging to Government."

Investments

The market value of direct investments as shown in the FR as at 31 December 2010 stood at €369,026,776. The nominal value of shares denominated in US Dollars remained unchanged (US$11,147,455) from 2009.

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 2010 and the preceding year:

New Investment

- Following the enactment of Act No. XIV of 2010, the Republic of Malta acquired 1,669,883 shares with a par value of €0.01 in the European Financial Stability Facility (EFSF).

  EFSF was incorporated in Luxembourg as a public limited liability company known as *Société Anonyme*. In 2010, Malta, together with the Euro Area Member States, entered into an agreement with EFSF, which agreement lays the terms and conditions upon which EFSF may make loans to Euro Area Member States who are in financial difficulties, finance such loans backed up by guarantees issued by the other Euro Area Member States, and other matters regulated therein.

  Whilst Total Guarantee Commitments of Euro Area Member States amounted to €440 billion, Malta's share as per EFSF Framework Agreement amounted to €398.44 million by the end of 2010.

  The 'Statement of Investments as at 31 December 2010' in the FR, shows a Nominal Value and a Cost of Investment of €16,335, representing Malta's share of EFSF Total Capital balance amounting to €17,531,000 corresponding to 0.632% of 67.8266%[1]. The Share Certificate for this Investment, received in April 2011, later portrayed the actual value of Malta's Investment as €16,699. NAO was informed that an adjustment for the difference of €364 has been made by Treasury in 2011.

[1] Percentages derived from Annex 2 Contribution Key of the European Financial Stability Facility Framework Agreement.

Investments Redeemed

- The US Dollar Deposit Account (Courts), held at the Central Bank of Malta classified under Court and Other Deposits, with a nominal and market value of $357,024 and €247,366 respectively as at 31 December 2009, was closed during the year 2010.

Increase in Investments

- Following a Board resolution dated 7 May 2010, Medelec Switchgear Limited capitalised its general reserves and retained earnings for the purpose of increasing its issued share capital. This superseded an extraordinary resolution of the Company to increase the authorised share capital. As a result, the Government was allotted a further 261,250 Ordinary "C" shares of a nominal value of €2.40 each.

- During a Board resolution dated 30 October 2009, Bank of Valletta plc. capitalised its earnings for the purpose of a bonus issue of 40 million fully paid ordinary shares of a nominal value of €1 per share. The Government was allotted a further 10,092,047 shares, representing one bonus share for every four held, with an effective date of 15 January 2010.

  With the increase in allotment of these shares to Government, the market value increased considerably from €156,224,884 as at year end 2009 to €194,675,584 as at 31 December 2010. The increase in the aggregate market value occurred, in spite of a decrease in market price of €0.012 per share.

- At the Malta International Airport's Annual General Meeting held on 10 May 2010, it was decided to re-designate the authorised and issued share capital from a nominal value of €0.465874 to €0.50 per share. This was followed by a re-denomination of share capital from €0.50 to €0.25 per share. Each shareholder was therefore allotted two shares for each registered share, resulting in Government's shareholding to double to 27,059,990 ordinary shares.

  The market price of this investment decreased from €2.40 as at 31 December 2009 to €1.66 as at 31 December 2010. Nevertheless, the total market value of the investment as at 31 December 2010 increased by €12,447,595 over the prior year's value, reflecting the increase in ordinary shares.

Movements in Values of Existing Investments

- During 2010, the cost of investments in:

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

  increased due to changes in US Dollar exchange rate.

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	114,730,775	45,851,782
Malta Government Stocks	4,341,022	-
TOTAL	**119,071,797**	**45,851,782**

(Source: FR 2010, pg 163)

Other Investments

Investment in Industry

A return submitted by Malta Government Investments (MGI) Ltd. to the Accountant General showed that the total cost of investment in 34 companies amounted to €21,209,765 as at 31 December 2010.

MGI estimated that the net book value of these investments amounted to €19,100,790 after an accumulated provisional loss of €2,108,975. 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	20	19,659,994	559,917	19,100,077
Associated Companies	2	1,549,058	1,549,058	-
Other Companies	12	713	-	713

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

At the end of 2010, the total of investment in industry, as reported by Treasury, amounted to €21,784,370 as against €21,482,318 on 31 December 2009, an increase of €302,052 over the previous year.

This increase works out as follows:
- An additional investment in Malpro Ltd. of €53.84. This represents a new share allotment of 150 shares (20% paid-up) further to a resolution to convert the company's share capital from Euro to GBP.
- New investments in Malta Super Yacht Services Limited and Ricasoli Tank Cleaning Limited amounting to €99,999 and €201,999 respectively.

It is to be noted that indirect investments at year end, as reported by Treasury amounting to €21,784,370, do not tally with MGI Ltd. aggregate balances reported standing at €21,209,765.

Although Treasury' and MGI's records do not tally, NAO satisfactorily noted that information regarding indirect investments from MGI Ltd. was received in time by Treasury, enabling the latter to affect the necessary transactions in the Government Accounting System, where applicable.

The difference of €574,605 between Treasury's and MGI Ltd. records is explained in Table 7.

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

Company	Notes	Balance as per MGI Ltd. records	Balance as per Treasury Books	Difference
		€	€	€
Libma International Construction Ltd.	*a*	442,606	645,425	202,819
Dairy Products (Malta) Ltd.	*b*	-	349,406	349,406
Topwear Ltd.	*b*	-	22,362	22,362
Malta Freeport Corporation Ltd.	*b*	-	2	2
Malta Government Investments Ltd.	*c*	-	2	2
TOTAL	*d*	**442,606**	**1,017,197**	**574,591**

Notes:

a. 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.
b. These three companies are not reported on MGI Ltd. records since these were investments made from Government funds by the former Malta Development Corporation.
c. The Malta Government has one share of €2.33 in MGI Ltd. which has never been reported by the latter.
d. Total difference does not tally due to rounding up of figures.

(Source: Reasons forwarded by Treasury)

Addition in 'Other Investments'

Euro Coins

In June and December 2010, CBM made two Euro Coin issues on behalf of Treasury amounting to €1,685,000 and €2,118,000 respectively.

Dividends/Interests Received

Treasury accounts for and reports interest payable from Government's indirect investment as revenue. Interest received from Enemalta Corporation on 'Permanent Debenture in respect of the value of the assets taken over by the Electricity Division (Tr. 145/82)' and 'Permanent Capital Contribution' in Appendix H1 of FR 2010 were reported as €742,052 and €73,375 respectively, totalling €815,427.

However, NAO noted that Actual Revenue for 2010 from 'Interest payable by Enemalta Corporation on permanent debenture and permanent capital contribution in terms of Act XVI of 1977' in Appendix C1 of FR 2010 was reported as €815,000.

Upon enquiry, Treasury confirmed that during 2010, the interest received from the Enemalta Corporation was €815,000, thus indicating that interest received in Appendix H1 of FR 2010 is overstated by €427.

Furthermore, Treasury stated that the interest payable by Enemalta Corporation on permanent debenture and permanent capital contribution should have been apportioned as €741,663 and €73,337 respectively in Appendix H1 of FR 2010.

Loans made by Government and Repayments thereof

Balances and other details of all loans issued by Government as on 31 December 2010 as reported in Appendix E of the FR 2010, are summarised as follows:

		€
I.	Loans under Act II of 1956	23,099
II.	Other Loans	24,838,157

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 Facility Agreement with the Hellenic Republic	19,769,652

Loan Repayments

The loan to the Water Services Corporation which as at 31 December 2010 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 2010.

Court and Other Deposits

These Deposits form part of the Treasury Clearance Fund, which in terms of Section 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 2010, Court Deposits amounted to €17,135,879, while Other Deposits, spread across the thirty-seven Ministry/Departmental Votes, totalled €51,085,183.

Nil Variances

Following an examination of the Statements of Court and Other Deposits for the year 2010, it was observed that a total of 23 accounts were wound up during the year. Of these, four accounts, amounting collectively to €582,479 were reported upon in last year's Annual Audit Report (AAR). However, seven Ministry/Departmental Votes reported no movement at all in nine Other Deposit accounts for three consecutive years, totalling to €97,481. Furthermore, 10 Ministry/Departmental Votes reported no movement at all in numerous Other Deposit accounts for four consecutive years. These amounted to €608,696, a breakdown of which is found on the following page:

Table 8 – Court and Other Deposits

Vote number	Ministry/Department	Description of Account	2006 - 2010 €
Other Deposits:			
05	Office of the Prime Minister	8585 Assignments for Parastatal Organisations	141,428
14	Ministry for Gozo	8258 Unpresented Drafts	5,548
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	17,317
32	Public Debt	8554 Unpresented Bearer Debenture Loans	9,317
39	Commerce	8396 Price Stabilization Fund – Main account	638
41	Ministry for Justice and Home Affairs	8520 Gross V.A.T. Output Tax	2,103
43	Police	8574 Takings from confiscated amusement machines	14,009
			608,696

Recommendation

NAO satisfactorily noted that action has been taken by Treasury to require Ministries/Departments to review the utility of five of the Other Deposit Accounts listed above.

Notwithstanding this, the recommendation put forward in the 2008 and 2009 AARs requiring Ministries/Departments to review the utility of their Deposit Accounts, still stands. If they are no longer in use, they should be wound up, with their funds being transferred to the Consolidated Fund.

Advances

Accounting for Advances

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

Appendix L of the FR incorporates a detailed statement of balances remaining outstanding as on 31 December 2010, in respect of advances made to various Government Departments, Agencies and Organisations.

Pending advances were reported as amounting to €186,867,082 as on 31 December 2010, as against €223,315,893 outstanding on 31 December 2009.

New Advances

According to the FR 2010, Appendix L, one new Advance Warrant was issued during 2010, for the purpose of extending a Loan Facility Agreement with Air Malta plc for an amount of €15,000,000. This Advance Warrant also stipulated that such advance shall be accounted for and repaid in 2011 in line with the Loan Agreement.

Outstanding Advances

Outstanding advances apart from advances forwarded to Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd., as at 31 December 2010 are shown in Table 9.

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	2,534,210
Two advances made to Permanent Secretary, Ministry of Finance and Commerce, to enable him to support the operational cost of Enemalta Corporation during 1997	8,363,197
Commissioner of Inland Revenue, to meet loans in terms of Article 4 of the Monte Di Pieta' Act (No. XXXIX) of 1976	542,848
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	5,002,391
Permanent Secretary, Ministry for Economic Services, for the purpose of settling during 1999 and further servicing costs of Malta Freeport loans	14,977,644
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	436,758
Loan Facility Agreement with Air Malta plc	15,000,000

Observations

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 2010, €11,000,000 repayments were effected in respect of Malta Drydocks – 1998 advance.

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

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

	€
Construction of ships at Malta Shipbuilding Co. Ltd.	21,643,890
Malta Drydocks Corporation – 1998	10,366,022
Malta Drydocks Corporation – 1999	18,634,163
Malta Drydocks Corporation – 2000	25,623,107
Malta Drydocks Corporation – 2001	29,987,336
TOTAL	**106,254,518**

It is to be noted that the budgeted amount of €16,000,000 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, were actually utilised. A further amount of €8,755,002 was also expended over and above that budgeted, leading to a total contribution of €24,755,002.

Gozo Channel Co. Ltd. – €436,758

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 2010, interest amounting to €23,294 and capital repayment of €145,586 were received from the company, as detailed in the schedule of payments

Advances Repaid

The following Advances brought forward were repaid during the year totalling €36,655,279:

Accounting for 14th Payment of Social Security Benefits 2009
Purchase Back of Emphyteusis

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 2010 with the relative Stock Certificates held by Treasury. Representatives from NAO attended the meeting in an observer capacity.

The Board is made up of three members, namely the Chairperson, this being the MFEI Permanent Secretary, a MIMCOL representative and the Accountant General. All members were present for the meeting held on 24 May 2011 to inspect the investments held at the Treasury Department.

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

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 2010.

Similar to what was reported in last year's AAR, NAO once again noted a considerable 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 25 February 2011 and 6 June 2011 respectively.

The Board responsible for taking account of monies, deposits, investments and other values existing at the Ministry for Gozo found that the cash in hand tallied with the balance as per Cash Book.

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

The Board however, was 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 the automated reconciliation for the period under review was almost complete

Bank – Central Bank of Malta Public Account

Developments regarding the Public Account Reconciliation for the period January 2002 to-date

As per established procedure, Treasury has continued with the practice of submitting to NAO, a monthly reconciliation statement for the Public Account.

Treasury has also maintained constant control on departments to ensure that these adhere to Treasury Circulars issued in the past years aimed to further facilitate reconciliation procedures

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 both the 2008 and in last year's AARs. Treasury still maintains that the start-off date of the new reconciliation exercise should be January 2002. Treasury stated that during the indicated ten-year period, there had been various changes both in the Government's accounting system and in that of CBM, making it impossible to embark on any kind of reconciliation for the years in question. This decision is based on cost considerations and human resources requirements.

Developments on the "new" Bank Reconciliation Statement

During an Information Technology Audit of the Public Bank Reconciliation System (BRS), Treasury forwarded to this Office a copy of the *"new"* Bank Reconciliation Statement as at end of November 2009, which featured in the 2009 AAR.

In May 2009, Treasury had commissioned MITA to develop a *"new"* Bank Reconciliation Statement. This *"new"* Statement was designed to correctly report the opening and closing bank and cash balances that actually feature in the Departmental Accounting System (DAS) and CBM and to reconcile the transactions processed during the respective time period, generally one month.

Also, in 2008, as a result of the Euro change-over, Treasury had commissioned MITA to develop a new Bank Reconciliation Statement database (Euro conversion). Treasury confirmed that it is now in a position to make available a copy of the *"new"* BRS Statement. Such Statement amalgamates together the benefits of the new 2008 Euro-conversion Bank Reconciliation database and its May 2009 development request to MITA mentioned above.

A copy of the *"new"* Statement as at end November 2009 (Enhanced) was forwarded to this Office, which included an unreconciled discrepancy of €17,895.49 between balance as per CBM Statement and balance as per Cash Book. A copy of this Statement is made available as an *Appendix* to this report with additional sheets showing the description for each line item. Supporting documentation for the balances included in this Statement, these being the respective bank statement and the cash balance as per DAS Report, was also provided.

Treasury informed this Office that in collaboration with MITA, it is doing its best to identify and resolve the resulting difference of €17,895.49. Although NAO does not agree, Treasury deems that the resulting difference being mentioned is immaterial, considering that the transactions in the Public Account run into billions of Euros every year.

Treasury also stated that, in due course, it will be making available to NAO a copy of the *"new"* BRS Statements for each month starting from 1 January 2008 on an ongoing basis. Furthermore, Treasury informed NAO that this "new" Statement may be subject to further changes both in the presentation layout and narrative description.

Moreover, Treasury confirmed that for the years 2002 till 2007, it will also be submitting the *"new"* BRS Statement, in this case, one consolidated statement for each respective year.

Developments on the multiple matching facility

Treasury informed NAO that the development of the one-to-many matching functionality is currently being reviewed by MITA's contractor to bring it in line with the ISO270001 security specifications. The delivery of this development is scheduled for October 2011. Following this, MITA will then carry out a quality review of the enhancements which is then followed by Treasury User Acceptance and then go live by the end of the year.

Notwithstanding the above developments, NAO has observed that the situation reported upon in previous Financial Years still prevails. Balances, as reported in Part 1 of the FR 2010, do not tally with the respective balances featuring in the Bank Reconciliation Statement for the month of December 2010 prepared by Treasury.

The FR 2010 states that *"...resulting in an end-of-year Debit Book Balance of €130,699,164 against a Bank Balance of €126,082,388."* On the other hand, the December 2010 Bank Reconciliation Statement features €11,056,660 and (€14,356,488) as Cash Book and CBM balances respectively.

Liabilities

Table 11 features the Statement of Liabilities (FR 2010 – Appendix I – refers).

Table 11 – Statement of Liabilities

	2010	2009
		€ 000's
Public Debt	3,755,532	3,380,372*
Euro Coins issued o.b.o Treasury	40,957	37,154
Treasury Bills	375,662	470,520
Deposits		
Court and Other Deposits	68,221	86,541
Other	23	23
	68,244	86,564
Funds		
Sinking Funds	164,924	160,543
Contingencies Fund	1,165	1,165
Trust Funds	1,420	1,327
	167,508	163,035
Accumulated Fund		
Consolidated Fund at year end	(125,231)	(196,297)
Net Public Debt	(3,109,604)	(2,806,608)
	(3,234,836)	(3,002,905)
TOTAL LIABILITIES	**1,173,068**	**1,134,741**

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

* The 2009 Public Debt figure should read €3,379,962 due to misstatements in the statement of Foreign Loans reported upon in last year's AAR.

Public Debt

Local Loans

On 31 December 2010, the local Public Debt as reported in Appendix F of the FR amounted to €4,043,492,882. This amount represents an increase of €293,638,582 over the corresponding reported figure for 2009. 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 €375,661,907 and €56,374,196 respectively.

This increase works out as follows:

	€
Total of New Local Loans	1,820,287,670
Total Repayment of Loan	(1,526,649,088)
Net Increase in Public Debt	293,638,582

Foreign Loans

Audit Findings

- Payment by Draft

  The practice reported in last year's AAR still prevails. At reprint stage, 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, thus constituting an audit risk.

  Notwithstanding this, in all cases, figures quoted on the second ('reprints') Payment by Draft tallied with CBM Debit Advices.

- Details on CBM Debit Advice

  The selling rates of exchange used by CBM on the Debit Advices for the loans in currencies other than Euro, could not be verified by NAO, since no official lists issued daily by the Investments Section are kept by CBM. Notwithstanding this, NAO satisfactorily noted that CBM's approach of printing the relevant rates of exchange applied on Debit Advices was carried out consistently throughout the year.

  As previously reported, 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 agree with year end exchange rates.

  As recommended last year, NAO reiterates that DAS should allow users to opt for Reprint/Amendment functions, as applicable to the particular case.

Questionnaire on Public Debt

A questionnaire on Public Debt Management, focusing on the formulation and fulfilment of Public Debt Management goals in different countries, was received from a foreign Supreme Audit Institution during May 2011.

The questionnaire was compiled with the assistance of the Debt Management Directorate within the Treasury Department, during which NAO confirmed a thorough understanding of the local Debt Management Office's (DMO) role in the operational dimensions of debt and cash management for the central Government. The salient points of the compiled questionnaire have been outlined in this section.

Public Debt Management Goal

The principal objective of the Debt Management Directorate in its debt management activity is to raise funds to ensure that the central Government borrowing programme (short and long term) is financed prudently, and cost effectively consistent with an acceptable level of risk.

No specific time horizon is set for the achievement of this goal, since the prudent financing of the Government borrowing programme is meant to be consistently achieved.

According to the 2010 Treasury Department Annual Report, the Debt Management Directorate is also to ensure that:
- *"the annual debt servicing costs are met at the lowest possible costs;*
- *the development of the domestic financial markets is given the necessary support; and*
- *the liquidity of Government Funds is adequate to meet Government's financial commitments/obligations as and when they fall due."*

Overarching Principles

The government's borrowing programme includes:
- Malta Government Stocks (MGS)
- Treasury Bills
- Foreign Loans

The Government sets the long-term Public Debt Management goal, and its preference in respect of debt and maturity profile, helps provide the market with long term confidence about the nature of future Government borrowing.

An Annual Frequency Remit is established between MFEI Budget Office and the Treasury. The DMO then recommends the debt issuance strategy for the year, both in terms of types and maturities of stocks. This is submitted to the Public Debt Management Advisory Committee[2], which in turn considers this advice and makes recommendations to MFEI.

Government is committed to principles of transparency and predictability in its debt management.

Malta Government Stocks

An indicative MGS issuance calendar is issued every January via a press release by the Department of Information. This calendar gives an overview of the Government's borrowing requirements for the year together with its main purpose. It also gives an indication of the planned series of MGS issues and the frequency and maturity structure of the MGS issuance.

Treasury Bills

Similar to the MGS, an issuance calendar is issued on a monthly basis in the Government Gazette for Treasury Bills. This calendar contains details of tenors, auction and settlement dates.

Foreign Loans

To finance large capital projects, bilateral loans with foreign entities are undertaken.

[2] Members of the Public Debt Management Advisory Committee are the Permanent Secretary, Ministry of Finance, the Economy and Investment; a representative of the Central Bank of Malta; the Accountant General; the Director of the Debt Management Office; the Chief Executive Officer of the Malta Stock Exchange; and the Director General of Economic Planning.

Debt composition, Weighted Average Maturity, Cost and Risk

Debt Composition

Debt Composition as at 31 December 2010 stood as follows:

Table 12 – Local Debt Composition

Domestic Debt	External Debt
%	%
97.88	2.12

Table 13 – Domestic and External Debt Composition

Type of Debt	€	% of Total Debt
Malta Government Stocks	3,611,456,779	87.42
Ex Malta Drydocks, Malta Shipbuilding Loans	56,374,196	1.36
Treasury Bills	375,661,907	9.10
Foreign Loans	87,700,789	2.12
Total Debt	**4,131,193,671**	**100**

(Source: FR 2010, pgs 151-152)

Public Debt does not include derivatives. This is mainly due to the conservative policy adopted by the DMO which seeks to achieve the lowest level of possible risk across all related areas of debt management.

Debt composition and the use of debt issues are restricted by legislation, in particular by the Budget Measures Implementation Act, which is issued on a yearly basis.

The Budget Measures Implementation (2010) Act for instance, limits the sum of money that can be raised by the Government of Malta by way of loan to €550 million. It also states that *"Any money borrowed…shall be appropriated and applied for the purpose of:*

(a) meeting excess expenditure over revenue incurred in the Consolidated Fund for year 2010 and, or subsequent years;
(b) redeeming registered stocks which are due for redemption during 2010; and
(c) effecting portfolio changes in relation to amounts raised through Treasury Bills, amounts raised through Government Stocks, and in respect of loans raised outside Malta as and when required in line with Government's debt management policies."

Earmarking of Public Debt is a useful tool for debt control since it promotes transparency in public finances. Any changes to the borrowing's preset purpose have to be duly approved by Parliament.

Weighted Average Maturity

Total Weighted Average Maturity as at 30 December 2010 stood as follows:

Table 14 – Total Weighted Average Maturity as at December 2010

Total	Domestic nominal	Foreign Currency nominal
5.9629 years	5.9639 years	3.3983 years

Notes:

i. Total maturity is based on total portfolio denominators (including MGS, Treasury Bills and Foreign Loans).

ii. Domestic nominal and Foreign Currency nominal maturities are calculated on the basis of their respective portfolio denominators. Thus, the summation of Domestic nominal and Foreign Currency nominal maturities is not equal to the Total maturity figure.

iii. Figures relating to Foreign Currency nominal are based on the assumption that loan repayments are made once yearly on the 30th of December. The exchange rate used in relation to Foreign Loans was as stated by the European Central Bank on 30 December 2010.

(Source: Public Debt Management Directorate)

Cost and Risk

Two main methods are used by DMO to control Public Debt risk and costs:

- Debt composition – Short term borrowing is not to exceed 10% of aggregate debt.
- Debt Maturity – To mitigate refinancing risk, the Weighted Average Maturity of the Government Debt Portfolio is lengthened by the issue of new MGS biased towards the nine year to 20 year horizon.

DMO stated that judgements on cost and risks are based on informal quantitative reasoning.

Public Debt Percentages

Debt as a percentage of Gross Domestic Product

Table 15 – Debt as a Percentage of Gross Domestic Product

Public Debt 31 December 2010 €	Gross Domestic Product 2010 €	Ratio Public Debt to Gross Domestic Product %
4,131,193,671[*1]	6,245,844,000[*2]	66.14

[*1] (Source: FR 2010, pgs 151-152)

[*2] (Source: Gross Domestic Product – National Statistics Office (NSO) News Release No. 079/2011, Government Debt and Deficit under the Maastricht Treaty: First reporting for 2011)

Cost of debt as a percentage of budget and tax revenues

Table 16 – Cost as a Percentage of Budget and Tax Revenues

Cost of Public Debt 31 December 2010 € billion	Ratio to Budget %	Ratio to tax revenues %
0.197	6.09	11.64

Notes:

(i) The cost of Public Debt was derived from the ‘Abstract of the Consolidated Fund Account for 2010’ in the FR. The figure (€196,755,427) includes Interest local, Interest Foreign and Interest Short-term borrowing.

(ii) Ratio to Budget % shows the cost of debt as calculated in (i) above as a percentage of Public State spending for 2010. Budgeted public state spending (€3,231,108,000) was derived from FR 2010 and consists of the Total Recurrent expenditure and Public Debt Servicing and Total Capital expenditure.

(iii) Ratio to tax revenues shows the cost of debt (as per (i) above) as a percentage of total tax revenue for 2010 (€1,690,455,232). The figure of tax revenue was derived from the Statement of Revenue 2010 in the FR 2010 and includes Customs and Excise duties; Licences, Taxes and Fines; Income Tax and Value Added Tax.

Debt strategies during the financial crises

Financial crises may jeopardise the fulfilment of the long term cost minimising goal set for Public Debt management. This is especially the case if deficits and debt are increased in pursuit of supporting jobs and local industries. Consultative meetings between Ministries and the relevant constituted bodies are held on an ongoing basis to discuss issues relating to national economic and/or social relevance.

The global financial crisis followed by the economic recession had an adverse effect on the economy of Malta during 2009 with the result that on account of the economic slowdown, the net issuance of Central Government debt (MGS and Treasury Bills) increased to €373,352,307 in 2009 compared with €213,629,370 in 2008. This was followed by a slight decrease in the net issuance of Central Government debt in 2010 of €292,414,587.

As part of the issuance strategy review process, consultations were held also with institutional investors during the second half of 2009. As a result of this process the Treasury offered for the first time a new product - a medium term Floating Rate Bond linked to the six-month Euribor. Along the issue of this new product, Treasury continued to offer bond issues mainly in the four-year and ten-year maturity horizon.

Creditors' Analysis

Forty-eight Ministries/Departments submitted to Treasury an 'Analysis of Creditors' as at 31 December 2010, in the required accruals' template. Total creditors reported as at 31 December 2010 in these analysis amounted to €160,442,078, which excluded an additional credit balance of €4,172,150,660 relating to Public Debt Servicing Directorate, whose balance was extracted from DAS. The Directorate did not submit the Analysis of Creditors template following a decision taken during an Accrual Accounting Financial Management meeting held at Treasury on 2 July 2010.

Total creditors as at 31 December 2010 represented 49 Ministries/Departments and amounted to €4,332,592,738. The same balance as at 31 December 2009, which was also made up of balances submitted by 49 Ministries/Departments, totalled €4,202,100,952.

According to data submitted by Ministries/Departments, out of total creditors balance as at 31 December 2010, €4,172,159,560 was still within the credit period, representing 96.30% of total creditors.

€569,506 of total creditors (0.01%) related to amounts contested. The following is an ageing analysis of the remaining creditors' balances as at 31 December 2010:

Table 17 – Ageing of Remaining Creditors

Days Overdue	2010		2009	
	Amount Due €	% of Total Creditors	Amount Due €	% of Total Creditors
01-30	81,636,288	1.88	114,151,407	2.72
31-60	8,011,135	0.18	6,723,341	0.16
61-90	3,743,499	0.09	5,505,484	0.13
91-180	2,461,050	0.06	3,441,031	0.08
181-360	1,748,799	0.04	6,860,020	0.16
Over 360	62,262,903	1.44	26,632,689	0.63
Total	**159,863,674**	**3.69**	**163,313,972**	**3.88**

Thirteen Ministries/Departments reported a 'Nil' creditors balance in their Returns, as at 31 December 2010.

Statement of Abandoned Claims, Cash Losses and Stores Written Off

In terms of the General Financial Regulations, 1966 and Treasury Circular No. 2/2011, Departments were to submit to the Accountant General an annual Return of stores written off, abandoned claims and cash losses by not later than 25 March 2011. 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.

Whilst examining Appendix M, including annual Returns submitted by Ministries/Departments, the following shortcomings were noted:

Authority for writing off of Abandoned Claims and Unserviceable/Obsolete Items

a) It was observed that write-off approvals of numerous abandoned claims and unserviceable/obsolete items, reported by Ministries/Departments, lacked the name and grade of the endorsing officer, leading to an unidentifiable signatory. In other cases, authorisations did not specify amounts written off. NAO satisfactorily noted that Treasury informed Ministries/Departments concerned regarding the clarity of the endorsing officer when this was lacking. In fact, several Ministries/Departments complied with Treasury's request to resubmit appropriate copies of write-off approvals so that authorising officers could be clearly identified as highlighted in Treasury Circular No. 2/2011.

b) Unserviceable, missing and stolen items reported by four Departments[3] and amounting collectively to €6,670, together with items of no market value, were not covered by a write-off approval.

Identification of Endorsing Officers

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

Cash Losses

An amount of €528 consisting of unserviceable items written off, was erroneously reported under cash losses in Statement M. A cash loss of €20 reported by the Institute of Tourism Studies was not covered by a write-off approval, though this was reported in Statement M. On the other hand, a cash loss of €70 reported by the Civil Registration was omitted from Statement M.

Abandoned Claims and Write-offs

Stolen items that were duly reported as written off by the Ministry for Resources and Rural Affairs (Contracts and Procurement) amounting to €1,101, did not feature in Statement M of the FR. On the other hand, abandoned claims reported by the Entitlement Unit Strategy and Sustainability Division (Health) for an amount of €3,924 were not included, due to the fact that according to the Division, written off amounts *"... have been referred back to the respective entity for coupment of money due from their end."*

Undeclared Obsolete Items

Although the Department of Information (Gozo) was granted approval to write off obsolete items amounting to €118, this amount did not feature in the Department's Return.

Returns not Submitted

Treasury reported a List of Defaulting Departments outlining those Ministries/Departments that failed to comply with Treasury Circular No. 2/2011.

[3] These pertained to Ministry of Foreign Affairs (€5,956), Inland Revenue Department (nil value items), Institute of Tourism Studies (Gozo) (€89) and Environmental Health (€625 and nil value items).

Recommendation

It is recommended that Treasury implements stricter measures to ensure compliance with requirements specified in the Treasury Circular. Persistent defaulters, especially those that fail to provide the appropriate identification of endorsing officers, should be reported in the FR accordingly.

Letters of Comfort/Bank Guarantees

The position of Contingent Liabilities as at 31 December 2010, as reported upon in Part I of the FR 2010 is reproduced in Table 18, a breakdown of which can be found in Table 19.

Table 18 – Contingent Liabilities – 2010

	€
Government Guarantees:	
Local	504,004,317
Foreign	482,582,708
	986,587,025
Letters of Comfort	50,358,224
TOTAL	**1,036,945,249**

Table 19 – Letters of Comfort/Bank Guarantees

Beneficiary		**31 Dec 09**	**31 Dec 10**	**Remarks**
Enemalta Corporation	€	1,941,144	-	This Letter of Guarantee, originally amounting to €11,646,867, was issued to secure loan facilities available to Enemalta Corporation. Said Guarantee was cancelled on 25 June 2010.
	€	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.
	€	17,678,576	17,678,576	This Letter of Guarantee, originally amounting to €30,000,000, was issued to secure temporary short-term overdraft facility.
	€	42,500,000	36,250,000	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	10,000,000	A Letter of Guarantee was issued for this amount to secure overdraft facility.
	€	5,893,003	5,893,003	This Letter of Guarantee, originally amounting to €10,000,000, was issued to secure overdraft facility.

Beneficiary		31 Dec 09	31 Dec 10	Remarks
	€	10,000,000	10,000,000	A Letter of Guarantee was issued for this amount to secure overdraft facility.
	€	20,000,000	20,000,000	A Letter of Guarantee was issued for this amount to secure temporary short term overdraft facility.
	€	16,000,000	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	24,742,530	This Letter of Guarantee, originally amounting to €27,000,000, was issued to cover loan facility.
	€	75,000,000	75,000,000	A Letter of Guarantee was issued for this amount to secure loan facility.
	€	15,000,000	105,000,000	This Guarantee secures loan taken to part finance the Corporation's investments in the national electricity supply system and distribution network.
	€	-	49,267,979	This Letter of Guarantee, originally amounting to €50,000,000, was issued to secure loan facility in connection with the construction of interconnector between Malta and Sicily.
	€	448,755,253	579,832,088	
Gozo Ferries Co. Ltd.	€	893,755	-	The loan facilities granted to Gozo Feries Co. Ltd. have been fully repaid, such that the Guarantee on this loan is no longer valid.
Housing Authority	€	116,244	126,028	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 another commercial bank for the same purpose.
Malta Enterprise Corporation (ex Malta Development Corporation)	€	1,009,323	712,533	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	2,867,013	€1,587,313 represents a Letter of Guarantee to secure loan/credit facilities made available to the Corporation.
	€	2,939,758	3,579,546	
Water Services Corporation	€	65,632,012	59,421,265	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.

Beneficiary		31 Dec 09	31 Dec 10	Remarks
	€	19,500,000	29,500,000	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.
	€	85,132,012	88,921,265	
Malta Freeport Corporation Ltd.	€	15,253,253	10,188,470	a) €2,271,043 taken over from Malta Freeport Terminals Ltd. as a result of the privatisation process. Commercial bank requested a Letter of Comfort to cover this facility. b) €2,336,894 taken over from Malta Freeport Terminals Ltd. as a result of the privatisation process. Malta Freeport Corporation Ltd. has converted the overdraft facility into a loan facility repayable over a ten year period. c) €53,272 Letter of Guarantee was issued in substitution of the Letter of Guarantee covering the balance on the loans of Lm7.75m (€18,052,644). d) The remaining consisted of Letters of Guarantee to secure loan facilities.
	€	202,911,067	201,832,708	e) On 20 January 2004, Malta Freeport Corporation Ltd. entered into a Currency SWAP agreement with a private company over the 2028 bonds (original denomination US$ 250m) *€200,754,838*. This SWAP agreement is guaranteed by the Government of Malta, but does not increase the overall exposure of the Government of Malta since the same treatment applicable for the Gozo Ferries Co. Ltd. Sovereign Guarantee was applied. As a result, the currency denomination has been changed to Euro.
	€	218,164,320	212,021,178	
Malta Industrial Parks Ltd.	€	20,359,785	19,367,264	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.
	€	29,475,187	27,135,187	Letter of Comfort issued on 31 January 2007 in connection with the development of a specialised facility at Luqa Airport leased land.
	€	6,761,571	5,957,832	Letter of Comfort issued on 4 February 2008 to secure loan facility in connection with capital projects.
	€	5,000,000	12,429,748	A Letter of Guarantee, originally amounting to €13,000,000, was issued to secure loan facility.

Beneficiary		31 Dec 09	31 Dec 10	Remarks
	€	-	3,750,000	A Letter of Guarantee, originally amounting to €7,500,000, was issued with a commercial bank in connection with the Medavia Project, to replace a Guarantee dated 4 March 2010 in favour of Malta Enterprise
	€	68,584,663	75,628,151	
Malta Government Technology and Investment	€	923,378	818,900	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	-	A Letter of Guarantee, originally amounting to €932,000, was issued to replace Guarantee dated 25 January 2001.
Malta Government Investments Ltd.	€	5,872,699	6,042,941	Two Letters of Guarantee issued on 23 December 2005 to cover working capital and other financing requirements.
Malta Tourism Authority	€	591,797	291,172	Letter of Guarantee issued on 9 April 2003 to secure loan facility with a local commercial bank.
Foundation for Tomorrow's Schools	€	46,037,302	50,080,619	Two Letters of Guarantee issued on 1 December 2008 to secure general banking facility.
Malta Maritime Authority	€	5,512,775	-	This Letter of Guarantee was cancelled during 2010 and replaced with another Letter of Guarantee issued on 29 March 2010 in favour of The Authority for Transport in Malta.
Property Management Services Ltd.	€	9,000,000	7,000,000	This Letter of Guarantee, originally amounting to €9,000,000, was issued to secure loan facility.
Malta Transport Authority	€	-	4,663,170	This Letter of Guarantee, originally amounting to €13,976,240, was issued on 29 March 2010 to replace a Letter of Guarantee in the name of Malta Maritime Authority.
Grand Harbour Regeneration Corporation	€	-	7,940,191	A Letter of Comfort issued on 2 March 2010 for €7,200,000 to secure loan facility in connection with the City Gate project. This was replaced by a Letter of Comfort for €8,000,000 dated 9 December 2010
TOTAL	€	**892,989,831**	**1,036,945,249**	

The above €1,036,945,249 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

In general, NAO is satisfied that documentation relative to the Statements were available upon request at Treasury. In addition, Treasury and MFEI staff were cooperative at all times during the conduct of the audit. Furthermore, NAO satisfactorily noted that most recommendations were acted upon, with corrective action being taken immediately, where possible.

Management Comments

The Treasury Department submitted the following comments:

Statement of Abandoned Claims, Cash Losses and Stores Written Off

Treasury stated that it endeavours to guide Ministries/Departments through clear instructions issued in the yearly Treasury Circular and also by giving instructions by phone when requested. Management also confirmed that it will act upon NAO's recommendation when compiling the next Financial Report, to report also Ministries/Departments that fail to provide the appropriate identification of endorsing officers on Statements/Returns submitted to Treasury.

The Budget Office submitted these comments:

Revenue

The Budget Office shall continue to dedicate further attention towards providing comprehensive explanations on areas of variances, in time for submission of said variances in respect of the 2011 Financial Report.

Excess of Expenditure over Estimates

Management commented that following the issue of MFEI Circular No. 2/2011, Ministries were requested to report on whether variance analysis systems are in place and being implemented within all departments and cost centres, to which the majority of Ministries provided a positive reply. In relation to this, a checklist is now being maintained, which shows the level of compliance, or otherwise, by said Ministries that have subsequently submitted the 'Monthly Revised Estimates of Revenue and Expenditure', based on the variance analysis reports, as requested in the same Circular.

Advances

According to the Budget Office, the increase in expenditure under Treasury Clearance Fund Advances (Item 7189), was due to an amount which was repaid as directed by the Permanent Secretary as stated in the Advance Warrant itself, and issued in favour of the Commissioner of Land, for the purpose of purchasing back the remaining term of an emphyteusis as referred to on page 34 of this Report.

Appendix

New Bank Reconciliation Statement

As at End November 2009 *(Enhanced)* Date: 27/07/2011

	EUR	EUR	Line
BALANCE AS PER CBM STATEMENT		17,189,261.75	A
Cash Book Unreconciled Items:			
LESS			
Cheques Issued	220,424,863.71		B
Debit Advices	389,938,904.92		C
Schedules	2,598,790.60		D
Adjustments on Deposits and Direct Credits	10,482,791.67	623,445,350.90	E
ADD			
Cancelled Cheques (DAS Type 51)	128,916,726.47		F
Deposits	399,632,061.22		G
Direct Credits	200,259,673.39		H
Adjustments on Debit Advices	2,577,397.69	731,385,858.77	I
Central Bank of Malta Unreconciled Items:			
LESS			
Deposits, Direct Credits and Adjustments (Cr)	596,588,999.77	596,588,999.77	J
ADD			
Cheques Pending	1,630,302.73		K
Other CBM Payments and Adjustments (Dr)	517,612,702.32	519,243,005.05	L
		47,783,774.90	M
BALANCE AS PER CASH BOOK		59,625,426.18	N
Discrepancy		**-11,841,651.28**	

	-11,841,651.28	
LESS		
DAS-Cancelled cheques - TYPE 51	128,916,726.47	F
ADD		
BRS-Cancelled Cheques	128,187,499.61	O
BRS-Stale Cheques	5,686,080.73	P
	-6,884,797.41	
CBM trans matching with Cash Book prior to 2008	6,571,039.97	Q
CANCELLED STALE CHEQUES ISSUED PRIOR TO 2008 (Treasury listing)	331,652.93	R
	17,895.49	

New Bank Reconciliation Statement Calculations

(Line Description)

BALANCE AS PER CBM STATEMENT		A
CBM Opening Balance (As per CBM statement as at 01/01/2008)	166,384,621.73	
CBM Transactions	-149,195,359.98	
All CBM transactions for the selected period added together, including SWX and excluding cheques which are represented through the SWX transactions (Addition of CBM transactions)	17,189,261.75	
Cash Book Unreconciled Items		
LESS		
Cheques Issued (not considering BRS Cancelled and Stale status) All types of cheques issued, within the selected period, that are still not reconciled, irrespective whether cheque has been Cancelled or marked as Stale (Addition of Recon History transactions)	220,424,863.71	B
Debit Advices All Debit Advices, within the selected period, that are still not reconciled (Addition of Recon History transactions)	389,938,904.92	C
Schedules All Schedules, within the selected period, that are still not reconciled (Addition of Recon History transactions)	2,598,790.60	D
Adjustments on Deposits and Direct Credits All Deposit Reversals made within the selected period, that are still not reconciled (Addition of Recon History transactions)	10,482,791.67	E
ADD		
Cancelled Cheques (DAS Type 51) All DAS Cancel Cheque transactions, within the selected period (Addition of **Cash Book** transactions)	128,916,726.47	F
Deposits All Deposits made within the selected period, that are still not reconciled (Addition of Recon History transactions)	399,632,061.22	G
Direct Credits All Direct Credits made within the selected period, that are still not reconciled (Addition of Recon History transactions)	200,259,673.39	H
Adjustments on Debit Advices All Debit Advice Reversals made within the selected period, that are still not reconciled (Addition of Recon History transactions)	2,577,397.69	I
Central Bank of Malta Unreconciled Items:		
LESS		
Deposits, Direct Credits and Adjustments (Cr) All transactions with a negative value, effected within the selected period (Addition of Recon History transactions)	596,588,999.77	J

New Bank Reconciliation Statement Calculations

(Line Description)

ADD		
Cheques Pending All cheques cashed within the selected period, that have transaction type "CHQ" (Addition of Recon History transactions)	1,630,302.73	K
Other CBM Payments and Adjustments (Dr) All transactions that have a positive value and do not have transaction type "CHQ" and have been effected within the selected period (Addition of Recon History transactions)	517,612,702.32	L
Calculated Cash Book Balance	47,783,774.90	M
BALANCE AS PER CASH BOOK		
Cash Book Opening Balance (As per DAS Cash Book as at 01/01/2008)	165,644,828.75	N
Cash Book Transacions All Cash Book transactions effected within the selectede period, added together, including DAS cheques and excluding all other types of cheques (Addition of Cash Book transactions)	-106,019,402.57	
	59,625,426.18	
Discrepancy (This is the end of the current reconciliation statement)	-11,841,651.28	
The following is a new proposed area to arrive to actual reconciliation		
LESS		
Deduct DAS-Cancelled cheques - TYPE 51 Reversal of item F above	128,916,726.47	F
ADD		
BRS-Cancelled Cheques All Cash Book cheque transactions, within the selected period, that have a match type "C" and not transaction type "51" (DAS cancelled cheques) (Addition of Recon History transactions)	128,187,499.61	O
BRS-Stale Cheques All Cash Book cheque transactions, within the selected period, that have a match type "S" (Addition of Recon History transactions)	5,686,080.73	P
	-6,884,797.41	
CBM transactions matched with Cash Book prior to 2008 All CBM Recon History transactions, within the selected period, that have been matched with Cash Book transactions effected prior to 2008	6,571,039.97	Q
Cancelled Stale Cheques Issued Prior to 2008 (Manually from Treasury listing)	331,652.93	R
	17,895.49	

Corporate Issues

Arrears of Revenue 2010

Background

The timely collection of revenue and control over arrears of revenue is the responsibility of Accounting Officers. Treasury Circular No. 3/2011 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 1 April 2011, for transmission to the Auditor General. Treasury Circular No. 3/2011 also required officers to forward a copy of the Statement of Arrears to the Budget Office, Ministry of Finance, the Economy and Investment (MFEI). As per the foregoing Circular, the position of Arrears as at the end of 2010 should be indicated.

Ministries/Departments (M/D) are obliged to submit the position of Debtors on a quarterly basis, on specified templates, to be uploaded on the Accrual Accounting Financial Reporting System. In this regard, the same Circular 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 82 have been compiled only from Returns forwarded to the National Audit Office (NAO) by Treasury. The following M/D submitted 'NIL' Returns:

- Office of the President
- House of Representatives
- Office of the Prime Minister (OPM)
  - Public Service Commission
  - Electoral Office
  - Local Government
- Ministry of Foreign Affairs
- Ministry for Gozo (MGOZ)
  - Department Corporate Services
- Ministry for Infrastructure, Transport and Communications (MITC)
  - Civil Registry
  - Public Registry
- Ministry of Education, Culture, Youth and Sport
  - Libraries

- Ministry for Social Policy
  - o Government Pharmaceuticals

- Ministry of Finance, the Economy and Investment
  - o Public Lotto Department
  - o Privatisation Unit
  - o Consumer and Competition

- Ministry for Justice and Home Affairs
  - o Corporate Services
  - o Malta Security Service
  - o Corradino Correctional Facilities

Treasury published a list of defaulting M/D in Part I of the 2010 Financial Report. These entities failed to comply with the Circular in force. Defaulters are listed below:

- Ministry for Social Policy
  - o Ministry
  - o Department for Social Security
  - o Elderly and Community Care

- Ministry of Finance, the Economy and Investment
  - o Inland Revenue Department (IRD) – Social Security Contributions Pre and Post 1998

Debtors

When comparing amounts reported in ARR submitted to Treasury, to the declared figures in Debtors' Ageing list showing debtors' position as at end 2010, discrepancies in relation to seven M/D were identified. The differences relating to three of these M/D were due to undeclared debtors in their respective templates, the reasons for which were duly identified by Treasury. On the other hand, debtors reported by another Department exceeded those disclosed in its ARR due to different reporting treatment of estimated amounts. According to Treasury, IRD did not report debtors related to Social Security Contributions in its ARR, even though such figures were reported accordingly in the respective Debtors' list. In fact, previous Annual Audit Reports (AARs) of the Auditor General have reported IRD's failure to disclose these amounts in its ARR.

Notes and Comments on Arrears of Revenue

Office of the Prime Minister

The amount of €9,226 from the closing balance is the balance outstanding from an individual for breaching a Contract of Undertaking in 2007. The remainder is due from two individuals representing refund of overpaid salaries in 2010.

Armed Forces of Malta

Amounts not due

Over the years, the stricter security measures implemented at the airports triggered the increased demand of female soldiers posted at the Malta International Airport (MIA). However, the number of female soldiers posted there by the Armed Forces of Malta (AFM) was still insufficient. In an effort to address the problem of shortage, MIA and AFM agreed that the former employs an extra number of female security personnel from a third party – a private company.

The amount of €18,657 reported as not due represents deductions made by MIA, from amounts owed to AFM following an agreement reached between the two entities, wherein 70% of such costs were to be borne by AFM. This was also covered by approval from MFEI.

Amounts estimated as not collectable

Out of the gross pending amount of €2,086,409 at the end of the year, the amount of €115,511 is being estimated as not collectable for the following reasons:

a) The total amount of €4,149 which is under contestation is due from three ex-staff since 1994/1995 with respect to overpaid wages.

b) A claim amounting to €7,608 due from the Malta Maritime Authority since 2002 is being contested since the latter are stating that they did not request the service given by AFM.

c) The amount of €2,173 has been due from Posta Ltd since 1997. The company has since been liquidated.

(The amounts mentioned in the above three points are also disclosed under 'Amounts under Contestation' since these are being contested).

d) Total amounts of €852 due from six foreigners in respect of assistance salvage and another €256 due from another foreigner in respect of a traffic accident are considered as difficult to be recouped.

e) MGOZ and the Ministry for Resources and Rural Affairs (MRRA) owes AFM the amount of €22,812 and €75,244 respectively, in connection with services rendered by the latter to these entities. Attempts made by AFM to collect the outstanding balances proved futile.

f) Efforts claiming the aggregate amount of €467, due from two individuals for services provided during 2005 and 2006, were ineffective.

g) The amount of €1,528 due from an individual with respect to tender penalty was contested in Court. The relative file to establish the date of the Court case could not be traced. However, despite that the outcome was decided in favour of AFM, the amount due was still not settled by the end of 2010.

h) No response has been given by both Air Malta and Centro Aviazione in respect of the balances due which amounts to €154 (dating back to 2002) and €268 (dating back to 2007) respectively.

Closing balance

The net collectable balance of arrears of revenue as at year end stood at €1,970,898 and is made up of arrears in respect of services rendered as follows:

		€
a)	Petrol Craft Conveyance/Hire of Vehicles and Machinery	8,336
b)	Repayment of fuel and repairs	14,805
c)	Security Duties rendered at Commercial Banks, a Corporation and Government Departments/Entities	1,943,698
d)	Services Rendered by the AFM/Sundry Services	4,059

Ageing of Net Collectable Arrears at end of year, can be analysed as follows:

	€
Amounts outstanding equal to or less than one year	1,960,641
Amounts outstanding over one year till two years	5,012
Amounts outstanding over two years till five years	5,245

Tourism

The following is a sub-classification of the gross closing balance of arrears as reported by the Tourism in its amended ARR as at 31 December 2010:

	€
Malta Tourism Authority (MTA) – Ex-Hotels and Catering Establishments Board and Police Licence	1,282,157
Ex-White Rocks Complex	78,457
Dues from Local Councils in respect of beach cleaning services	202,588
Tourism – Refund of Salaries	24,242
Total	**1,587,444**

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

As reported in previous years, the Authority is still using a computerised live system for reporting purposes and since it is updated on an ongoing basis it does not give the exact position as at a given date. Consequently, the same report printed on different dates shows different figures.

The opening balance of outstanding debtors in the ARR as at 31 December 2010 was revised, since the amount did not tally with the closing balance of the previous year. Following queries raised by NAO, the original figure given was found to be understated by €15,460. The closing balance is also not accurate and could not be properly verified.

MTA acknowledges the problems with the current reporting system and hence they are looking at alternatives to replace it. Preparation on the Invitation to Tender document for a new license and contributions system was in progress and a call was expected to be finalised by the end of 2011, for publication in the first quarter of 2012.

Dues to Ex-White Rocks Complex

The amount of €78,457 due to White Rocks Complex since pre-1995 is estimated as not collectable since the latter have not operated for years.

In May 2010, OPM requested the necessary writing-off approval from MFEI. This was followed up in July 2011. However, up till the time of writing, the required authorisation was not yet obtained.

Dues from Local Councils for Beach Cleaning Services

Year after year, the amount of €202,588 was reported due to the Tourism Directorate from various Local Councils for Beach Cleaning Services carried out between 1995 and 1997. However, documentation provided this year by the Directorate revealed a discrepancy of €10,316 between the amount reported in the statement of arrears and the respective invoices which totalled to €212,904. The statement of arrears of revenue was not adjusted accordingly.

Notwithstanding the various reminders, the foregoing balances due were never honoured. Thus, MFEI writing-off approval was requested in May 2010. However, this was not granted on the grounds that the Tourism Directorate should take up this matter with the Department for Local Government with a view of recouping the amounts due before resorting to write-off. Subsequently, in July 2010, correspondence was sent to the latter advising them to urge Local Councils to settle their owing amounts which were overdue for a number of years.

However, the Department for Local Government stated that it was not comfortable with issuing legally binding instructions to the Local Councils. Thus no further action was taken in this regard. Consequently, OPM has recently asked Director Tourism to request again MFEI approval to write off the amounts in question.

Payables to the Tourism Directorate

Refund of Salaries

The amount of €7,144 due from an ex-employee representing refund of salaries is being estimated as not collectable and is also included under 'Amounts under Contestation'. Legal advice sought from the Office of the Attorney General indicated that this refund is not due. However, the Department of Corporate Services within OPM was not yet confident that a write-off is justified and by end 2010 had still not requested the required approval from MFEI.

Department of Information

The difference in the opening balance amounting to €142, as compared to the 2009 closing balance is due to a total of six invoices which were inadvertently omitted from last year's Return.

The accrued balance of €31,690 at year end is made up as follows:

	€
Sale of Photographic Material	95
Government Gazette Adverts	27,167
Overtime (refund of overtime performed by the Department of Information's photographers)	4,055
Couriers	155
Waste Disposal	218
Total	**31,690**

Ageing of Net Collectable Arrears at year end, can be analysed as follows:

	€
Amounts outstanding equal to or less than one year	29,310
Amounts outstanding between one year and two years	129
Amounts outstanding between two years and five years	2,251
Total	**31,690**

Conclusions and Recommendations

From a sample test carried out by NAO, a number of errors were noted and the Department was requested to submit a revised Return. In view of the frequency of these errors, NAO also recommended the Department of Information to perform a full review in order to ensure accuracy and completeness of the Annual Return of Arrears before submission to Treasury.

However, the Department informed this Office that at the moment it is not possible to carry out the recommended exercise due to shortage of staff.

Government Printing Press

Following verifications carried out by this Office on a sample of transactions, a number of discrepancies were traced to the original ARR submitted. The Department subsequently performed an exercise on the computerised system where an error in one of the calculations was identified. This actually occurred way back in 2008 during the installation of the system. The Return was then adjusted accordingly and an amended version was resubmitted. These adjustments triggered the difference between the revised reported opening balance, which stands at €432,172, and the closing balance amounting to €428,369 as reported in prior year.

From a sample of two payments effected by two separate Government entities during 2010, it also transpired that amounts from non-Value Added Tax (VAT) registered clients were being recorded net of the tax element, notwithstanding that VAT was not refundable to the tax authorities. The Government Printing Press acknowledged such default and agreed that from next year, arrears will be reported gross of any VAT charges.

The net closing balance is in respect of:

	€
Jobbing	226,485
Revolving Fund	183,094
Total	**409,579**

The net amount can be classified as follows:

	€
Outstanding for less than one year	229,641
Outstanding over one year but less than two years	92,600
Outstanding between two and five years	85,766
Outstanding between six and ten years	1,572
Total	**409,579**

Ministry for Gozo

Out of an opening balance of €289,862, only €21,574 was collected, of which 68% related to Public Cleansing in Local Councils, while the balance was collected by the Works and Agriculture Sections. No arrears of revenue was collected by the Public Cleansing in respect of Waste Disposal which outstanding balance still amounts to €149,030.

The amount of €27,050 estimated as not collectable is due to the Agriculture Section. From this total, €25,256 is in dispute, due by the Xewkija Local Council in respect of services provided during the period 2004-2006. The remaining balance relates to bills issued to a service provider following the termination of the respective contract.

As from 1 January 2011, revenue due to the Public Cleansing was transferred under the remit of the Director (Tourism and Economic Development), Strategy and Support Division. Instructions have been given by the latter to separate debtors in two categories, i.e. those less than €10, for which MFEI approval for write-off will be sought and those over €10 which will be followed by the Legal Office of the Ministry.

As at December 2010, the gross outstanding balance stood at €284,908. The Ministry's collection performance as well as the ageing of arrears can be analysed as follows:

Department	**Opening Balance**	**Amount Collected**	**Percentage Collected**	**Outstanding Balance**
	€	**€**	**%**	**€**
Public Cleansing – Local Councils	57,453	14,671	25.5	58,097
Public Cleansing – Waste Disposal	149,030	-	0	149,030
Works	52,576	3,151	6	49,426
Agriculture	30,803	3,752	12.2	28,355
Total	**289,862**	**21,574**		**284,908**

Ageing of the net collectable arrears:

	€
Amounts outstanding for less than one year	16,620
Amounts outstanding for over one year but less than two years	12,345
Amounts outstanding for over two years but less than five years	37,560
Amounts outstanding for over five years but less than ten years	159,195
Amounts outstanding for over ten years but less than twenty years	59,188
Total	**284,908**

Gozo General Hospital

Background

In 2010, for the first time a Return of arrears was submitted in respect of the Gozo General Hospital (GGH), showing outstanding arrears of €88,790 as at 31 December 2009. However, this figure was only correct as at 18 March 2010, i.e., the day the respective reports were extracted by GGH.

Opening Balance

The opening balance shown in the Return of arrears for period ending 31 December 2010 stood at €104,049, a difference of €15,259 from the closing balance reported in the previous year's Return. In line with the preceding period, this opening balance again reflects outstanding arrears on the date the report was extracted. However, the actual opening balance could not be determined as no documentation was available.

The above situation has now been rectified. A record of outstanding arrears is being printed on a monthly basis and correct position should eventually be reported for the upcoming financial year.

Arrears Written Off

The amount of €1,840 was shown as written off. However, no justification was available as to why this amount was irrecoverable. Furthermore, the necessary approval from the Permanent Secretary, authorising this write-off, was not provided.

Past Arrears Collected/Arrears Newly Accrued/Outstanding Amounts

The amounts shown in the Return under the above headings also do not reflect the amounts as at end of year. In addition, due to other limitations highlighted hereafter, it could not be ascertained that amounts reported are correct.

- The two officers currently in the Almoner and Revenue section were appointed in this area in July and October 2010 respectively, when no adequate records of arrears of revenue existed.

- All revenue collected by GGH is eventually deposited into account number 0434 – Hospital Fees which falls under the Health Division. Thus GGH can never have full control of revenue collected. Though action had been taken by the Director Customer Services way back in 2005, requesting a monthly copy of the transactions from the Revenue account in order to establish outstanding arrears, this request was turned down by the Health Division, the latter claiming that *"this data belongs to the Health Division and your Dept should not have access to financial matters of the Health Division"*.

- Patients can settle bills directly with the Health Division by paying at the Central Bank or through internet banking. In such cases, GGH is not always informed by the Maltese authorities about these payments, resulting in GGH reporting overstated outstanding arrears when these have already been settled.

- Closing balance of outstanding Arrears of Revenue at end 2010 may also potentially be overstated as it may include amounts due from residents from the European Union who are entitled to free healthcare. In some cases the forms submitted by the Health Centres, and other health authorities, indicate only the European Health Insurance card number (E111), without a photocopy of the actual card.

- The two officers at the Almoner and Revenue Section stated that verbal instructions were given by Management to consider as collectable only amounts relating to the last two years. Consequently, out of an outstanding balance of €95,796, only €40,500 are deemed as net collectable as at 31 December 2010, with the balance of €55,296 reported under 'Estimated amount considered as not collectable' without any justification.

- The forms submitted by the various health authorities to the Almoner Section are not numbered or referenced in any way. Only when they reach the Almoner Office are these given a consecutive number. As a result of this shortcoming, any forms lost prior to reaching the Almoner office will not be detected. Consequently, completeness of revenue and outstanding arrears cannot be ascertained.

Ministry for Infrastructure, Transport and Communications

Licences and Infrastructure Fees

The gross closing balance of €3,338,216 is made up of:

	€
Airport Operating Licences	248,078
Fees Rights of Use	1,060,151
Infrastructure Fees	2,029,987

MITC has two licensed aerodromes in Malta – the Gozo Heliport and MIA. Both operate in accordance with the conditions listed in the respective 'Aerodrome Licence'. Rights of Use conditions are also listed in the same licence. Both licences were granted in accordance with Article 69 of the Air Navigation Order (1990).

Infrastructure Fees are collected by the Malta Environment and Planning Authority on behalf of Government and subsequently forwarded to MITC. However, as from 2011, this Item has been posted under the responsibility of OPM, such that it is no longer MITC's remit to collect outstanding amounts.

Upon enquiry, MITC stated that till end of June 2011, all fees related to the Airport Operating Licences have been received.

Transport Malta

A discrepancy of €2,918,777 in the opening balance of arrears when compared to the reported closing balance as at 31 December 2009 arose, due to an error in the compilation of the 2009 ARR, following an erroneous report issued from the Malta Transport Authority (ADT) system.

The gross/net closing balance of arrears amounting to €15,587,728, as reported in the 2010 Statement of Arrears submitted by ADT, is made up of dues in respect of motor vehicle road and driving licences. Attempts by this Office to obtain a breakdown of this figure once again proved futile, the reason provided being that such figure is made up of a long list.

ADT reported a 'Nil' balance for both 'Past Arrears Collected' and 'Estimated Amount considered as not collectable.' In a communication to NAO dated 5 July 2011, Management commented that *"… this issue of arrears is being taken at cabinet level with all TM's recommendations."*

Television Licences Unit

The net collectable arrears as at 31 December 2010 reported by the Television Licensing Unit (TVLU) amounted to €5,832,400 which is entirely due by television licence holders.

Following a meeting with TVLU officials, the original ARR was revised and eventually resubmitted to NAO, due to the fact that the amount previously reported in connection with amounts written off, did not tally with the supporting documentation submitted by TVLU. Moreover, TVLU could not ascertain that the figures reported for 'Past Arrears Collected' and 'Newly Accrued Arrears' were correct.

In fact, in a subsequent correspondence to NAO dated 28 September 2011, TVLU commented that *"The completion of the Report has been a difficult process for TVLU in the past years … due to the fact that the accounting software … is old and does not reflect the changing requirements of the Treasury Department."* It was also stated that 'write-offs' and 'not due' amounts are generated manually to analyse the global Claim Verification Form figures produced by the television system, and that figures for 'Past Arrears Collected' and 'Newly Accrued Arrears' are not made available by same. In this regard, TVLU is discussing the possibility of upgrading the system with the software developer so that the necessary reports requested by the Treasury Department could be generated with ease.

Following the resubmission of the Return, testing was carried out to ascertain that all write-offs amounting to €57,851 as reported in the ARR, were granted in terms of Article 80 of the General Financial Regulations, and that respective amounts tallied with the list of write-offs forwarded by TVLU.

TVLU eventually submitted a revised Return for the second time on 12 October 2011, to reflect the proper figure of write-offs totalling €57,264. Nil amounts were reported for 'Past Arrears Collected' and 'Newly Accrued Arrears' due to the reasons explained above.

Collection efforts

As stated in previous years, TVLU stressed that *"The increase in arrears may be due to the fact that the tax collected by the TVLU is publicly perceived as a tax that is about to be abolished. The last years have seen a dramatic increase of 57% in arrears that have increased from €6.21 million in 2007 to €9.72 million in 2010. The number of licence holders has been decreasing at a cumulative rate of 2% (or circa 2,000) every year – licence holders are declaring that their television has been disposed of to avoid paying the licence fees. Several factors have contributed to such state of affairs among which:*

(i) Government's electoral promise to remove television licences;
(ii) General economic situation."

The Department also remarked that it has very limited enforcement tools at its disposal and this reinforces the public's attitude to evade the tax. These are issues that were raised from Departmental to Ministerial level in an inter-office memorandum in January 2011 that focused on an arrears recovery plan in line with MFEI's policy. The memorandum is still under consideration at Ministerial level. At Departmental level, TVLU keeps in touch with its clients by regularly sending bills and reminders, including telephone calls to encourage payment.

Recent Developments

During the Budget Speech for 2012, Government removed the requirement for television licences. Individuals having unpaid licences relating to previous years will be requested to regularise their position by way of a scheme being introduced specifically for this purpose.

Malta Communications Authority

The gross closing balance of €146,041 is made up of:

	€
Broadband Wireless Access (BWA)	139,762
Numbering Fees	5,207
Postal	1,072

According to the Malta Communications Authority (MCA), €139,762 pertains to three annual fees of €46,587, issued by means of judicial letter to a private company for the period of October 2008 to October 2011, in line with BWA licence regulations. The company filed for liquidation in December 2010 and during a Creditors Voluntary Winding Up meeting for which MCA was present, it was agreed that the latter's claims on behalf of the Government were to be included in the Financial Statements of the company.

Eventually, the outstanding dues for BWA licence were listed under the Contingent Liabilities in the company's Annual Report and Financial Statements prepared by the liquidator, which also included a note on the fact that MCA had filed a judicial letter and that the company in question always contested these dues and therefore had not listed this amount in its books of accounts.

Numbering Fees amounting to €5,207 are due from two operators, one of which agreed to a payment plan and is recovering the amounts due through agreed monthly payments. However, with regards to the other operator, MCA filed a judicial letter on 15 July 2011 to recover the amount due.

Postal licences are calculated from postal operators in line with the First Schedule of the Postal Services (General) Regulations. According to MCA, the amount due in connection with Postal licences has been recovered.

Action taken by MCA to recover monies due

The Authority's overdue debtors are initially chased by the Finance Department, followed by legal warning letters being sent to those who fail to settle within one week following the due date. If these debtors fail to settle their dues within the time period stipulated in the legal warning, a judicial letter is filed in Court in order to recover the dues.

Civil Aviation

The gross closing balance of €576,940 as reported by the Directorate is made up of:

	€
Miscellaneous Licences	46,497
Airport Tax	530,443

Of these, a total of €373,965 are considered as not collectable, whereas the net closing balance of Airport Tax amounting to €196,000 is to be continued to be collected by means of monthly instalments.

Land Registry

The difference of €3,240 between the gross closing balance for the year 2009 and the 2010 gross opening balance represents searches erroneously omitted from the 2009 ARR.

- As in previous years, the Department was unable to provide a breakdown of past arrears collected (€1,634), since no records of arrears collected are kept at the Searches Unit. In a communication to this Office dated 10 March 2011, the Department stated that *"…it is impossible to keep a record of when each and every search is collected. This is especially more evident during January of each year when a backlog of searches ordered in December and issued that same month are collected. For the purpose of this exercise, these are considered as 'Past Arrears Collected'."*

- An estimated amount of €20,734 was reported as not collectable. Action to be taken against defaulters is to be determined following the outcome of a test case which is still being heard at Court. Notwithstanding this, it was confirmed that the Department is in the process of issuing registered letters to all defaulters of the last three years.

NAO once again recommends the Registry to establish adequate systems of control to ensure that arrears are accurately recorded and reported in the ARR. Collection efforts have to be intensified in order to avoid the increasing trend in gross outstanding arrears.

Ministry for Resources and Rural Affairs

The 2010 Statement of Arrears of Revenue submitted by MRRA, incorporates the following Revenue Categories with a net closing outstanding balance of €1,484,887 comprising dues:

		€
a)	from Local Councils issued by Central District Office	88,726
b)	from Local Councils issued by Cleansing Services Directorate	184,086
c)	from Deposits of Waste and Rubble issued by Cleansing Services Directorate	958
d)	to Manufacturing and Services Department	28,136
e)	to Aquaculture	146,919
f)	for Plant Quarantine	1,951
g)	for Fish Marketing Scheme	495,312
h)	from Breach of Contracts, Damages, Maintenance and others	60,852
i)	from Sundry Revenue, Director Corporate Services Salary, Loans Co-Operatives, Fisheries Loans (Prior amalgamation with MRRA)	1,681

j)	to Salaries Section	39,881
k)	to Veterinary Services	206,628
l)	to the Paying Agency	229,757

Newly Accrued Arrears

Dues to Salaries Section

An amount of €39,881 was reported as Dues to Salaries Section in the 2010 Return. The Officer explained *"…that the mentioned dues …occurred due to misunderstanding between departments, certain information was delayed and amounts were not deducted in time"*. However, despite various efforts on the part of NAO, the Department did not sufficiently clarify why these newly accrued arrears resulted.

Dues to the Paying Agency

An amount of €231,148 was reported as Newly Accrued Arrears and a breakdown of these arrears was provided with the Return. The Head of the Accounts Unit was requested to explain what these arrears represented. However, no information was forwarded.

Past Arrears Collected

Receipts issued for settled claims amounting to €407,741 from a total of €628,797, reported collected during 2010, were requested. The receipts provided collectively only amounted to €172,081 (42%).

With regards to certain Revenue Categories the following shortcomings were noted:

Dues for Fish Marketing Scheme

Copies of the receipts requested, in respect of the sample amounting to €202,859, were not forwarded, same as in the previous year.

Dues from Breach of Contracts, Damages, Maintenance and Others

- No receipts were provided in respect of an amount of €8,260.
- An amount of €7,464 was incorrectly reported as collected since it was confirmed that the amount settled during 2010 was €1,800.

Dues from Sundry Revenue, DCS Salary Overpayments

- No receipts were provided in respect of an amount of €5,499.
- An amount of €2,421 was incorrectly reported as collected since it was confirmed that the amount actually settled during 2010 was €1,904.

Dues from Local Councils issued by Central Districts Office

In the case of one Local Council, it was confirmed that two amounts, €8,903 and €3,937, were cancelled by credit notes but were erroneously reported as collected instead of as not due.

Dues to Veterinary Services

An agreement was signed on 4 February 2009 in respect of arrears amounting to €187,573 which were previously written off. The agreement outlines repayment terms over a ten year period and stipulates that €700 monthly is to be repaid during the first and second year while it increases to €1,000 monthly during the third and fourth year.

However, receipts provided confirmed that repayments were made from March 2009 until June 2011, all at the rate of €700 monthly. Therefore, the repayment amount did not increase accordingly during the third year.

2009 Follow-Up

Dues by Local Councils – Cleansing Services Directorate

An appeal was lodged against the Court's ruling, in respect of arrears amounting to €18,465. However, as at date of testing, no final verdict was given.

Dues to the Paying Agency

Arrears of €1,178 were previously reported in both the 2008 and 2009 ARR as due to the Paying Agency, which oversees a number of European Union (EU) funded projects. Eventually, 20% of arrears collected are paid into the Public Fund, whilst 80% are forwarded to EU. The above-mentioned amount was confirmed to be entirely due to the Public Fund, but during 2010 the amount was incorrectly reported under Past Arrears Collected of the Paying Agency. Enquiries were made but a reply was not provided.

Conclusion and Recommendations

From the exercise carried out it can be concluded that some of the shortcomings are repetitive and were already previously highlighted. It is of concern that sample testing of Past Arrears Collected during 2010 revealed that in a couple of cases incorrect amounts were reported.

Therefore, it is advisable that thorough checking of the amounts reported in ARR is performed. Any errors detected and/or amendments required are to be carried out before the Return is submitted to the Treasury and NAO.

It is to be ensured, that officers who are entrusted with the preparation of the ARR, are fully aware of the directives outlined in the Treasury Circular issued annually.

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 as at 31 December 2010:

		€
Director Corporate Services	*Breach of Contract*	127,540
	Overpayment in Salaries	80,026
	Running of Tuck-shops	7,851
Ministry – Administration	*Allowance Overpayment*	862
Examinations Department	*External Examinations*	5,130
Institute of Tourism Studies (ITS)	*B/L Running of ITS*	304,109
Maintenance Grants Section		
- Malta College of Arts, Science and Technology	*Stipends Overpayments*	30,716
- Junior College		6,296
- University		127,640
Total		**690,170**

Out of the €690,170 gross closing balance, the amount of €1,912 relates to dues which are considered as not possible to be recouped. The net collectable arrears of revenue due to the Ministry as at end December 2010, as indicated in the Return, stood at €688,258 and can be analysed as follows:

	€
Amounts outstanding for less than one year	155,518
Amounts outstanding for over one year but less than two years	139,720
Amounts outstanding between two years and five years	159,462
Amounts outstanding between five years and ten years	144,827
Amounts outstanding between ten years and twenty years	76,402
Amounts outstanding for over twenty years	12,329
Total	**688,258**

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

The opening balance totalling €149,418 as reported in the Statement of Arrears submitted by the Directorate, reconciles to the closing balance reported in prior year. Out of the aforementioned balance, the amount of €49,740 was collected during 2010.

The aggregate amount of €27,927 overpaid salaries paid to a total of 112 individuals was written off following the approval of the Director Corporate Services. A total of €26,220 from the foregoing amount represents various debts under €1,000 each, that have been due for more than five years. The remaining balance is made up of individual amounts under €100 each that have been outstanding for over two years.

Two claims totalling €608 are estimated as not collectable, since the two individuals owing the amount of €304 each could not be traced.

Breach of Contract

The amount of €127,541, reported as outstanding at the end of year, relates to six individuals who breached their Contract of Employment. Despite that, during 2009, the Directorate had taken the necessary legal actions through the Attorney General, only €900 from the amounts due was recovered during 2010.

Running of Tuck Shops

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

Ministry Allowance Overpayment

An overpaid allowance to an ex-employee was gradually fully refunded by January 2011.

Examinations Department

The gross closing balance of €5,130 relates to newly accrued arrears outstanding from overseas educational establishments.

Institute of Tourism Studies

The opening balance for 2010 differs from the closing balance for the previous year mainly due to the following:

a) An increase of €600 was due from a Government owned entity in respect of 2009. It transpired that the amended invoice was only issued by ITS in 2011.

b) An amount of €19 paid in 2009 by an individual and which was not deducted from the opening balance as at January 2010.

Out of the €235,018 outstanding at the beginning of the year, the amount of €37,292 was collected, whilst a further €4,290 are considered as not due for the following reasons;

a) Invoices, totalling €2,000, covering period August 2009 to June 2010, raised for services provided by ITS to a particular hotel in Brussels in connection with the internship of a student, had to be cancelled since the latter decided to quit and return to Malta.

b) ITS inadvertently failed to deduct the amount of €84, representing 15% agency commission fee, from the gross invoiced amount of €560, as was previously agreed with the client.

c) An amount of €480, covering damage excess costs of ITS Gozo vehicle, was agreed to be borne by ITS Malta.

d) An invoice amounting to €1,726 issued to Corradino Correctional Facility was reversed since the latter were offsetting the amount by providing community workers to ITS.

In addition to the above, a total amount of €1,851 was written off as bad debts following approval sought from MFEI.

An amended statement was re-submitted by ITS reflecting a revised analysis of the net arrears of revenue. An aggregate amount of €267,221 from the outstanding balance is due from Government Departments and Government owned entities while the remaining is owed from individuals or private companies.

Maintenance Grant Section

a) Junior College and Higher Secondary

None of prior year arrears, amounting to €5,795, was recovered during 2010. This figure was further augmented with another €501 newly accrued during the said year.

b) Malta College of Arts, Science and Technology

Arrears considered as not collectable, as at 31 December 2010, totalled €1,403. These balances are due from individuals with social cases.

A new Return was requested and re-submitted to NAO due to the following shortcomings which were noted during the necessary verifications carried out by this Office.

Opening Balance

Amounts due from five individuals, in aggregate amounting to €466, were inadvertently omitted from both last year's and this year's Statement of Arrears of Revenue.

The opening balance was also adjusted downwards by a net amount of €193 due to a number of compensating errors that were noted by the examiners.

Past Arrears Collected during 2010

Past arrears collected during the year, as originally reported, also had to be amended upwards by a net amount of €161 due to several errors noted by NAO.

Newly Accrued Arrears

Similarly, various errors were observed in the Newly Accrued column of the Return. Thus the amount featuring in the original Return had to be revised.

c) University

Various shortfalls with respect to the University's Stipends Office have been regularly reported upon in the AAR of the Auditor General, at least since 2007. To-date, deficiencies noted in the past have still not been addressed.

In line with previous years, the University of Malta also presented an inaccurate Return of arrears. The errors noted by NAO were brought to the attention of the Chairman of the Students Maintenance Grants Board. However, an amended Statement of Arrears of Revenue was not submitted. As a result, balances as disclosed in the report, are not accurate as these are being reproduced as per original Return sent by the University, which is not considered reliable.

The opening balance brought forward, as disclosed in the Return for the year ended 31 December 2010, does not reconcile to the closing balance illustrated in the Return for the year ended 31 December 2009 by €1,784. The difference is made up of several errors, such as the following:

a) Despite that an amount was considered as not due in the previous year's Return, (and therefore such amount should have been removed), this still featured as not due in 2010.

b) A balance paid during 2009 was included as outstanding with the opening balance of 2010.

c) Two separate amounts, which were newly accrued in 2010, also featured with the opening balance of January 2010.

d) An instance was encountered whereby the same individual was included twice in the Return.

e) At times, even the basic calculations, such as additions and deductions, were incorrect.

f) Most of the balances shown under newly accrued during 2010 are already considered as not due. No justifiable reasons were provided in this respect.

g) Under the newly accrued column, the University of Malta are also including amounts already collected during the year instead of being netted off against the respective payments.

h) Statement of Arrears of Revenue submitted by the University of Malta is not as per template referred to in Treasury Circular No. 3/2011, since the amounts under contestation are not indicated.

Ministry for Social Policy

Social Security Benefits

The Social Security Department failed to submit the Return by 1 April 2011 as per Treasury Circular No. 3/2011. In fact, the Return for the year 2010 was submitted on 18 May 2011, with that for the year 2009[1], which had not been previously submitted.

The Gross/Net closing balance of €13,238,305 is made up of overpayments relating to the following:

		€
a)	Social Assistance/Unemployment Assistance	7,120,645
b)	Non-Contributory Pension/ Handicapped Pension/ Age Allowance	1,244,939
c)	Sickness Assistance	741,118
d)	Unemployment Benefit/ Marriage Grant/ Injury Benefit	149,032
e)	Children Allowance/ Maternity Benefit	1,163,654
f)	Supplementary Assistance	281,043
g)	Pensions	2,533,485
h)	Miscellaneous	4,389

[1] Audit testing only covered the Return of arrears for the year 2010. The opening balance of the 2009 Return was confirmed with the closing balance of the Return for the previous year, and checks were made to confirm that the Return is mathematically correct. No further testing was carried out. NAO reported that such Return had not been submitted in the previous audit report.

An ageing analysis of this year's Gross/Net closing balance amounting to €13,238,305 revealed that:

- €4,206,133 (31.8%) reflects newly accrued arrears;
- €2,727,601 (20.6%) reflects balances due between one year and two years;
- €3,531,281 (26.7%) reflects balances which are from two to five years old; and
- the remaining balance of €2,773,290 (20.9%) reflects balances due for more than five and up to 37 years.

Amounts Written Off

All past arrears written off during 2010 were tested. These consisted of 39 entries relating to 35 claimants, which collectively amounted to €48,465.

No approval for write-off was made available in five instances, amounting collectively to €8,904 and making up 18.4% of the total write-offs. In a communication dated 4 July 2011, the Social Security Department explained that the relative files were destroyed.

Past Arrears Collected

Past Arrears Collected were made up of 5,724 claimants from whom an aggregate amount of €2,054,534 was collected during 2010. Thirty claimants who refunded the most material amounts during 2010, collectively totalling €197,183 (i.e. 9.6%), were selected for testing. It was noted that the amount collected according to Social Assistance and Benefits System differed from the amounts included in the Return of arrears for eight claimants out of 30, amounting to a total net discrepancy of €281.

Conclusion and Recommendations

Overpayments mainly arise from incorrect or inaccurate declarations made by claimants, failure to report changes in circumstances by beneficiaries, or errors made during the assessment. The newly accrued amount of €4,206,133 represents 31.8% of the net collectable arrears as at 31 December 2010. Whilst it is acknowledged that an improvement was registered in the collection of past arrears, it is evident that action needs to be taken in order to control the increasing newly accrued amounts. This will in turn reduce arrears due as at year end and the possibility that such moneys might never be collected.

This ARR was not amended to reflect any of the above mentioned audit issues.

Health Division

The net closing balance of €2,562,354 is made up of the following:

		€
a)	Licences	21,187
b)	Ship Sanitation	8,020
c)	Pharmacy Bills – Mater Dei	39,252
d)	Hospital Tests	3,600
e)	Hospital Fees – St. Luke's	180,778
f)	Hospital Fees – Mater Dei	923,418
g)	Hospital Fees – Sir Paul Boffa	7,655
h)	EU Countries E125	910,101
i)	EU Countries E127	140,780
j)	Sundry Bills (Mater Dei Hospital)	23,626
k)	Refunds/Resignations	143,268
l)	Overpayments	160,668

Submission of Return

The Health Division failed to submit the Return by 1 April 2011 as per Treasury Circular No. 3/2011. Moreover, the Return which was submitted on 15 April 2011 was not final, since Mater Dei Hospital figures relating to Patient Treatment were only updated following NAO's testing. In fact these figures were reflected in the amended Return submitted on 6 September 2011, which Return still includes an immaterial difference of €93. Furthermore, some documents which were requested on 12 August 2011 were received on 17 October 2011, well beyond the provided deadline.

Testing

Past arrears collected during 2010 were made up of 227 transactions amounting to €623,671, of which 30 transactions, (13.22%) amounting to €373,692 (59.92%), were selected for testing. On the other hand, all past arrears written off during 2010 were verified. During testing it was noted that:

Past Arrears Collected - Hospital Fees, Resignations and Overpayments

In four cases, totalling €18,767, it could not be ascertained whether it was correct that payments were recorded as collected in the 2010 Return, given that, from the documents provided, payments were either dated 2008 or 2009. In addition, in one of these cases, the amount received in 2009 was €170 and the amount recorded as collected in the 2010 Return was €325.

In four cases tested the amount collected during 2010, as per Claim Cards and/or Credit Advices provided, was approximately €14,798, whilst the amount recorded as collected in the 2010 Return was €40,645. As a result, an approximate balance of €25,847 could not be traced as no supporting documentation was made available.

In another two instances the amounts collected during 2010, as per Claim Card and Credit Advices provided, were €447 and €3,900 respectively, whilst the amounts recorded as collected in the 2010 Return were €341 and €3,600 respectively.

Past Arrears Collected - E125 and E127

The sample (eight cases) chosen for testing amounted to €255,546. The auditee provided bank statements to substantiate this amount. However, the bank statements provided included amounts which were not related to the balances being tested. To this extent, a breakdown of such deposits was requested but was not provided. Therefore, completeness of amounts collected could not be ascertained.

Two amounts were still included as collected in the 2010 Return, even though one of them was written off (€8,778) and the other one not deposited (€594). Up to writing of this Report, no explanation was provided in respect of these matters.

Past Arrears Written Off - Hospital Fees, Overpayments and E125

All transactions selected for sample under this category were correctly traced to copies of minutes and the respective approval. However, since some claims were rejected by the relevant EU Member States and were referred back to the respective entity, it is not clear whether these should have been recorded as write-offs in the Entitlement Unit's ARR. Although NAO requested an explanation in this respect, officers in charge of the Entitlement Unit did not provide a reply and so these matters remained unclear and inconclusive.

Recommendations

Cases identified above should be reviewed and amended accordingly. Controls over the preparation of the Return should be strengthened in order to avoid similar issues in the future. Furthermore, submission of the Return as well as replies to requested information is to be timely provided.

Mount Carmel Hospital

The majority of balances due to Mount Carmel Hospital pertain to hospitalisation fees pending from foreign patients, while the remaining amounts are mostly a variety of reimbursements for expenses such as emoluments, travelling expenses, water and electricity expenses and catering services.

From the gross opening balance of €511,470, no amounts have been written off during the year, and only relatively minor balances were marked as not due. Moreover, €171,000 past arrears have been collected, but newly accrued arrears recorded amounted to €242,614, of which a substantial portion (€134,265 – 55%) are hospitalisation fees due from foreign patients. The above factors result in an overall increase (€60,240 – 12%) in gross closing arrears, which total €571,710, out of which €441,450 (77%) are tagged as estimated amounts considered as not collectable.

The majority (€372,559 – 84%) are again hospitalisation fees due from foreign patients, where it was stated that strict monthly debt chasing is carried out, including legal actions in some cases.

The remaining balance considered not collectable (€68,891 – 16%) is due from Corradino Correctional Facility and *"... has been disputed between the Ministry for Health, the Elderly and Community Care and the Ministry for Justice and Home Affairs since 2008 and it seems that Corradino Correctional Facility has never accepted the claim and never paid."*

Rehabilitation Hospital Karin Grech

Arrears are due for collection by Rehabilitation Hospital Karin Grech (RHKG) from the Health Division, Mount Carmel Hospital and Mellieha Home. These are mainly made up of reimbursements due for salaries paid for staff working at these entities, either being seconded, or performing overtime duties. Another amount is also due from the Pharmacy of Your Choice Department.

RHKG also raises invoices in respect of free treatment provided to entitled EU patients. Initially, these bills were included in the Return submitted by RHKG, quoted as being not collectable.

However, upon enquiry NAO was informed that these invoices were passed onto the Entitlement Unit within the Health Division which in turn is responsible for the collection of related monies as per applicable agreements with EU. The Office was also informed that such amounts are reported in the Health's consolidated Return of Arrears.

Consequently, RHKG were asked to liaise with the Entitlement Unit, so that revised ARRs are submitted in a way to ensure that no double reporting is carried out.

Additionally, the initial Return submitted and related breakdowns were also revised several times due to a number of shortcomings. However, the final Return and related documents were submitted by RHKG post the final deadline given, and the Return lacked an endorsing signature.

As a result, figures quoted in the Return could not be fully analysed, verified or confirmed, and are only taken as reported by RHKG, thus limiting the scope of our review. Consequently, this Office is not in a position to certify the correctness of the Return submitted.

Regarding action taken to recoup arrears due, it was stated that RHKG presses for payment in cases of excessive balance, and reports late payments to the Director General Finance to take action. No further information was provided.

Elderly and Community Care Department

Revenue collected by the Elderly & Community Care Department pertains to fees due from residents of Homes/ Residences which are not administered by Government. However, this information was only obtained verbally and was never confirmed by the Department as a brief overview of the nature of the arrears, though requested by this Office, was never provided.

The Return submitted shows that no past arrears were collected during the year. However, additional balances of €14,378 were newly accrued during the same period, thus increasing substantially the closing balance due to €19,682.

The analysis of newly accrued arrears also revealed a discrepancy of €168 when compared with the figure quoted in the Return submitted. When this inconsistency was queried, it was stated that a reason for this discrepancy cannot be found.

A summary of what action is being taken by the Department to recoup balances due was not presented.

Welfare Committee

Revenue collected by the Welfare Committee pertains to fees due from residents of Homes/Residences or Hospitals which belong to and are administered by Government, as well as fees outstanding from clients for other caring services offered by Government. Once more, in this case, this information was only obtained verbally and was never confirmed by the Committee, even though an explanation of the nature of the arrears was requested by this Office.

From the Return submitted it transpired that a substantial amount of past arrears have been collected, and no new arrears were accrued during the year reviewed, resulting in an overall decrease in the closing balance due.

When requested to provide the analysis of balances quoted in the Return submitted, management stated that the exercise to compile the figures quoted in the Return was carried out manually, and this breakdown is not available. Instead, a 'Debtors Analysis 2010' report was submitted, which does not list each invoice separately or analyse its ageing. Limitations of software were cited as reason for this. Additionally an analysis of past arrears collected and newly accrued arrears were also not available. Consequently, this limited the scope of our review.

Furthermore, comparison of the opening and closing debtors featuring in the 'Debtors Analysis 2010' report with the corresponding balances as per Return submitted, revealed discrepancies of (€139,581) and (€280,269) in the opening and closing balances respectively. Following further enquiries, management stated that this results from debtor collectability, wherein the Report lists all debtors irrespective of whether they are still alive or not, and whether they have moved away and ignoring revision of contributions. On the other hand, only debtors who were still alive were considered when compiling the Return submitted, while those who had passed away with no assurance of collection were ignored. However, further information or specific reasons/details for the discrepancy were not provided.

Regarding action being taken by the Committee to recoup balances due, management replied that their lawyer is sending legal letters to various debtors with high risk balances. In addition, legal opinion is being sought from same lawyer regarding debtors who were found to have passed away.

In view of limitations noted above, which NAO considers as unacceptable, no further testing was carried out.

Department of Industrial and Employment Relations

The Arrears of Revenue due to the Industrial and Employment Relations Department consists of outstanding repayment of loans under the 'Self Employed Loan Incentive Scheme' which was introduced in the 1989 Budget and was closed at the end of 1992. The aim of the scheme was to assist individuals to start up a business enterprise. The related benefits included a €1,165 cash grant and a loan of up to €6,988 from Bank of Valletta plc. after a recommendation from Malta Development Corporation. Initially, in case of defaulters, the Ministry of Finance was responsible for the repayment of loans, but after July 1993 payments to the Bank were made by the then Department of Labour.

At the beginning of the year 2010, the amount of €327,324 was still due by 77 individuals who benefited from this Scheme. From an exercise carried out by this Office it was noted that 12 individuals, owing a total balance of €63,337 have never effected any payments throughout the years. During the foregoing year only the amount of €4,027 was collected from past arrears, representing 1.2% of the opening balance.

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 year.

The total amount of €241,558 is being estimated as not collectable. As recommended in last year's AAR, during 2010, the Department undertook an exercise whereby each individual debtor's case was assessed to establish the possibility of recouping the amounts due and this Office was provided with a detailed account of the situation of each debtor. It was also declared that the Department was finding it very difficult to recoup loans from various persons because they were registering as unemployed. Hence, they could not afford to effect payments from the unemployment benefits they were receiving. The Department was also encountering difficulties to recoup the debts from the heirs of five individuals who passed away.

Ministry of Finance, the Economy and Investment

The gross closing balance as at 31 December 2010, as provided by the Ministry, consists of:

		€
a)	Corporate Services Directorate	495,768
b)	Quality Assurance Unit	3,716
Total		**499,484**

An amount of €494,801, being newly accrued arrears due by the Malta Information Technology Agency (MITA), represented the reimbursement of annual rent payable by the Ministry on its behalf.

NAO satisfactorily noted that the Ministry provided all breakdowns pertaining to *'Past Arrears Collected'* of the Quality Assurance Unit and *'Newly Accrued'* warrant holders still owing registration and regulatory fees.

Lotteries and Gaming Authority

The gross closing balance of €303,761 as at 31 December 2010, as provided by the Authority, consists of outstanding taxes. From the newly accrued amount of €188,679, a balance of €62,893 was reported as 'Estimated as not collectable' claiming that the operator had not yet commenced operating, while another balance of €46,000 has been collected to-date. Although the Authority reported a further amount of €177,674 as not collectable, in a communication to this Office on 30 May 2011, it was stated that every possible means will be taken to recoup such amount. The net outstanding balance as at 31 December 2010 amounted to €17,194.

Treasury Department, Salaries and Pensions Section

The gross closing balance as at 31 December 2010, as provided by the Salaries and Pensions Section (Gozo), in its 2010 ARR, consists of:

		€
a)	Pension Claims from Public Entities	28,361,472
b)	Overpayment to Pensioners	25,738
c)	Refunds of Deceased Pensioners	2,387
Total		**28,389,597**

Opening Balance

The opening balance as at 1 January 2010 as declared in 2010 ARR does not tally with the closing balance as at 31 December 2009 by €18,345,022. The Section informed NAO that in October 2010, a comprehensive exercise was carried out to establish and claim amounts owed to Government by Public Entities, with respect to the latter's share towards the cost of pension being paid out by Treasury to retirees.

During this exercise, it resulted that not all the entities that were eligible to contribute through the Cost-Sharing Scheme were duly assessed and consequently the respective claims were not raised.

As a result of the above exercise, all entities were thus assessed in relation to the existing pensioners, including newly awarded pensioners. According to the Pensions Section, all entities have now been notified about the amounts due to Government up to year ending 2010.

Past Arrears Collected

During the year, a balance of €31,407 was collected from the revised opening balance of €25,957,483. Other entities are in direct liaison with the Section to establish a payment schedule and allocate amounts accordingly. Management confirmed that although these entities appear not to be in a financial position to honour their share, they did not object to the balance due.

Recommendation

NAO satisfactorily noted that observations reported in previous years' AARs, with regards to the accuracy of recorded arrears, has been addressed. The Department must now intensify its efforts to ensure that outstanding arrears are duly collected.

Inland Revenue Department

The gross closing balance of €652,870,101, consisting of income tax arrears as reported by the IRD in its ARR ending 31 December 2010, is classified as follows:

	€
Pre' 99 System (Up to Year of Assessment 1998)	193,486,077
Self-Assessment System (Post Year of Assessment 1998)	459,384,024

All breakdowns forwarded by IRD were found to tally with reported Return of Arrears figures for 2010 by the Department. As published in the 2009 AAR, an audit of the ARR of IRD for the year 2008 revealed that Ministerial approval for the write-off of a balance of €2,473,732 had not been forwarded. Management had replied that a request to the MFEI Permanent Secretary was requested for the retrospective write-off of this amount. Such approval was granted on 6 December 2010, a copy of which was forwarded to this Office on 29 September 2011.

Moreover, it came to NAO's attention that taxpayers are not given credit for payments in respect of statute-barred arrears.

Capital Transfer Duty Department

Substantial differences were once again noted between figures quoted in the Capital Transfer Duty (CTD) Department's ARR and figures as per breakdowns of arrears submitted by same. For this reason NAO requested a meeting with CTD officials to enquire on these variances.

Following this meeting, CTD submitted revised Returns for the years 2009 and 2010, including balances which agree to the breakdown of arrears previously submitted. This was due to the fact that the Returns were incorrectly compiled and did not reflect the actual status of the Department's arrears.

The revised gross closing balances as reported by CTD are made up as follows:

	2010	**2009**
	€	**€**
Duty on Documents	33,016,534	33,510,566
Death and Donation	5,140,398	5,195,795
Totals	**38,156,932**	**38,706,361**

Recommendations

It must be ensured that CTD's breakdowns of arrears tally with balances reported in the ARR. An explanation is to be included in the statement of arrears of revenue for each discrepancy arising between current and previous year's breakdowns. This is to be followed by any related adjustment properly classified under the appropriate heading in the Return.

Customs Department

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

		€
a)	Import and Export Duties	6,918,004
b)	Licences, Taxes and Fines	68,211
c)	Fees of Office	2,407
d)	Reimbursements	607,652
Total		**7,596,274**

The closing balance of Import and Export Duties excludes the amount of €18,377,868 pertaining to the Fuel and Excise Section, which was not yet due as at 31 December 2010.

The Department reported an amount of €6,467,583 relating to Import and Export Duties which were currently being contested in Court, the majority of which was due to failure of payment on the debtors' part. Notwithstanding this, Customs was unable to carry out an assessment of the collectability of such Duties, thereby leading to a 'Nil' balance being reported as estimated as not collectable. On the other hand, the amount of €68,211 due from Licences, Taxes and Fines are due to Customs following a Court sentence in favour of the Department.

Value Added Tax Department

The following is a sub-classification of the gross closing balance of arrears as reported by the VAT Department in its ARR for the year ending 2010:

		€
a)	VAT (1998)	415,756,999
b)	VAT (1995)	15,244,176
c)	Customs and Excise Tax	6,902,635
d)	ECO Contribution	5,446,504
e)	Refund to Government on stocks – 1997	620,381
Total		**443,970,695**

NAO requested the VAT Department to forward supporting breakdowns of the reported figures in the 2010 ARR. Such breakdowns were checked and tallied against the amounts recorded in the Return.

A detailed breakdown of the amount of €49,458 recorded under Column 3(b) – *'Past Arrears (Debtors) Written-Off'* VAT 99 in the ARR was forwarded to NAO. This consisted of €48,179 which was written off by Ministerial approval and write-offs of €1,279 by approval of the Commissioner of VAT in accordance with Financial Regulations.

Verification of Ministerial approvals revealed that two approvals, dated 20 February 2009 and 25 August 2009 respectively, collectively amounting to €4,810, were already forwarded to NAO as part of 2009 VAT 99 write-offs. On further enquiry, the VAT Department confirmed that although the authority for the write-off of this amount was received during 2009, the actual write-off in the VAT electronic system was carried out in 2010.

It was satisfactorily noted that amounts reported under 'Past Arrears Written-Off' in the 2010 ARR, did not contain adjusted amounts that should feature under 'Amounts Not Due and/or Adjustments', as was the case in the 2009 ARR.

Department of Contracts

The difference between the gross closing balance for year 2009 and the gross opening balance for year 2010, represent amendments amounting to €413, made to an outstanding balance under Penalties and Damages, erroneously reported in the previous Return.

The only movement in arrears consisted of write-offs totalling €17,613, resulting in a slightly lower gross closing balance of €376,069 compared to last year. Efforts are still underway to collect dues from a Court case decided in favour of the Department, amounting to €11,236. All pending amounts are being acted upon by the Attorney General, some of which are awaiting Court decisions. An amount of €59,748 was considered as not collectable, leading to a net closing balance of €316,321.

Government Property Department

The majority of arrears outstanding relate to Commercial Tenements, as detailed in the following breakdown of gross outstanding arrears as at 31 December 2010:

		€
a)	Rural	299,648
b)	Perpetual	114,113
c)	Residential	1,354,803
d)	Non-Residential	1,181,748
e)	Commercial	10,045,636
f)	Encroachments	320,904
g)	Debtors: Below the Line Accounts	2,913,202
Total		**16,230,054**

Out of the foregoing balance, the amount of €2,913,202 represents amounts due from Government Departments/Entities for expropriations.

Following NAO enquiry, in a communication to this Office dated 4 July 2011, the Government Property Department listed numerous efforts being made towards the collection of arrears, mainly:

- the issue of monthly invoices and regular updating of accounts;
- sending periodic reminders accompanied by phone calls to defaulters;
- the issue of judicial letters after three reminders, followed by a warrant; and
- the drawing up of agreements with defaulters to pay by monthly instalments.

The Department also stated that the termination of lease may also be considered in the event that the above options proved to be futile.

It was noted that the write-off approval of an amount of €72,793 relating to a Commercial lease was granted by the Parliamentary Secretary for Small Business and Land, following the recommendation of the then Director General, bypassing the authority of the Permanent Secretary.

Commerce Department

The following is a sub-classification of the gross closing balance of arrears as reported by the Commerce Department in the 2010 ARR:

		€
a)	Licences, Taxes and Fines	4,957,323
b)	Penalties paid by Students	7,549
c)	Miscellaneous Receipts	1,908
Total		**4,966,780**

Whilst an amount of €13,328 reported under ‘Amounts not due and/or adjustments’ related to the total of credit amounts redeemed on the Licence Management System in 2010, a minimal balance of €340 was estimated as not collectable by the Department.

Ministry for Justice and Home Affairs

Courts of Justice Division – Malta

Court Fines

Judges Court Fines

The gross closing balance of arrears of revenue reported as at end December 2009 by the Courts of Justice (COJ) last year amounted to €5,476,885. However, the opening balance for 2010 was amended to €5,428,030 by the latter since a total of seven fines which were converted into imprisonment, in aggregate amounting to €48,855, were erroneously reported under 'Estimated as Collectable' in last years' Return. These should have been reported as 'Amounts not due'.

Following intensive testing carried out by NAO, which revealed a number of shortcomings as outlined hereafter, COJ re-submitted a revised statement of arrears with the adjustments below:

a) Opening balance was adjusted upwards by €16,530. A fine of €16,306 imposed, on a defaulter during 2007, was converted to imprisonment. However, during 2009 this decision was revoked, with the result that the balance was still due from the defaulter. In addition, opening balance in respect of another pending fine was understated by €223.

b) 'Past arrears collected' were overstated by €699 due to incorrect mathematical calculations.

c) Amounts disclosed under 'Newly accrued arrears' were adjusted upwards by €3,062.

- A fine of €2,340 imposed during 2009, was converted into imprisonment during the same year. However, this decision was revoked the year after and thus the balance due was reinstated.

- Four newly accrued fines were in aggregate understated by €722.

d) Amounts estimated as not collectable were increased by €4,910,712.

- In line with Treasury Circular No. 3/2011, fines under contestation are to be included under 'Amounts estimated as not collectable'. Hence, statement of arrears was adjusted by €4,900,247 to comply with the aforementioned Circular. The foregoing amount includes a fine of €939,740 due by a defaulter who passed away in May 2010.

- A total of €3,259 due from deported defaulters is considered difficult to be recouped. Thus, this amount was re-classified under 'Amounts estimated as not collectable'. Likewise, fines totalling €7,207, against which a petition was filed, were also disclosed under this category.

The shortcomings outlined below were also noted. However, on the premises provided by COJ Management, which are included hereunder, no adjustments were carried out in this respect.

a) Four fines which were actually settled or part-paid in previous years, were included in the opening balance and incorrectly stated as collected in 2010.

Management Comment – *Since such cases were inputted in LECAM in 2010, the payment in this program was accounted for in 2010. In these cases, payments were effected in various previous years. However, not to complicate matters it was decided that these are accounted for in the Arrear of Revenue Return when they are inputted in the LECAM.*

b) Opening balance of four pending fines was inaccurately recorded from the LECAM system, resulting in a net immaterial difference.

Management Comment – *Discrepancy due to the Euro changeover.*

c) On two instances, despite that a conviction ticket was issued during 2009, in respect of fines totalling to €699, such balance was still included as part of the opening balance as at 1 January 2010 and subsequently included under 'Not Due' during the year.

Management Comment – *Both fines were converted in February 2010.*

d) Up to last year COJ was still reporting its arrears as at 31 January. Consequently, the latest statement of arrears submitted by COJ covers an eleven month period, i.e. 1 February to 31 December 2010.

Management Comment – *The arrears in respect of 2009 were reported from 1 Feb 2009 to 31 Jan 2010. Hence January 2010 cannot be accounted for again in the 2010 Return.*

e) A fine amounting to €1,959, which was imposed during 2010 and converted into imprisonment during the same year, is still recorded as due at end 2010. This fine should not feature in the Statement of Arrears.

Management Comment – *Department was informed on 14 February 2011.*

f) Two fines of €20 each, which were both imposed and paid during 2010, still featured as pending.

Management Comment – *Department was informed of payments on 7 February 2011 and 23 February 2011 respectively.*

g) A fine in the LECAM system was overstated by €2,329 and the amount was cancelled after year end. However, although COJ was aware of this case before the Return was finalised, this overstated amount was still included with the closing balance in the statement of arrears.

Management Comment – *Fine was cancelled on 16 February 2011.*

h) Instances were encountered whereby pending fines, amounting to €5,658, pertaining to two deceased defaulters, were not disclosed under 'Amounts Estimated as not Collectable' on the grounds that COJ was only aware of such situation during January/February 2011. Given that the statement of arrears was prepared in March 2011, NAO is of the opinion that this additional information is expected to be taken into consideration, in order to enhance accuracy of the reported financial position as at end of year.

Management Comment – *One is to appreciate that a cut off date is very important for the compilation of arrears of revenue. We cannot keep on searching for such updates up to the date that COJ send the Return. Although COJ will do its best to update records for such changes, which come to its knowledge and which occur prior to year end, instance would still be encountered whereby information will be known by COJ after the submission of the Return.*

Court Fines – Magistrate

After a number of years during which the Arrears of Revenue due from Magistrate's Court Fines were not submitted, an attempt was made to submit records regarding the outstanding debtors under this category.

However, following a verification exercise carried out by this Office, it was noted that the reported figures in the submitted statement, extracted from the LECAM courts computerised system, had to be adjusted as detailed hereunder. This resulted in a decrease of €126,487 in the net collectable arrears of revenue.

a) Arrears due as at 1 January 2010 as reported by COJ was found understated by €1,118.

b) A negative balance of €93 under Past Arrears Collected related to a fine paid in 2005. The necessary adjustment was carried out to reverse this amount.

c) A number of fines amounting to €33,700 were converted into imprisonment during prior years but the respective amounts were paid in 2010, thus the confinement sentence was revoked. However, the amounts in question were not properly reversed to net off against the fines actually paid. As a result, this amount was reinstated under 'Upward Revisions' so as to be settled off against the amount paid during the period under review.

d) Amounts shown as 'Not Due' were understated by €37,858 representing a number of cancelled fines, charges converted into imprisonment, appealed cases and revoked fines which were not taken into consideration.

e) COJ totally disregarded amounts Estimated as not Collectable, in aggregate totalling €123,354, made up of €67,492 owed by a number of deceased defaulters and another €55,862 due from untraceable persons.

A revised Return was requested from COJ. This Office further recommends that COJ undertakes an extensive exercise to reconcile reported arrears as per transactions recorded in the LECAM System before submitting the Return.

Court Fees

Information regarding the Civil Court fees has also not been submitted in prior years due to the various shortcomings in the reports extracted from the CORTEX system. Testing carried out by COJ revealed that there are variations between the closing balance of one year and the opening balance of the next year. Although amounts under this category feature in this year's Return, NAO did not carry out the necessary verifications since no progress has yet been made on the system.

Since 2007, COJ together with the assistance of MITA were trying to implement a project (CAPEX) which is expected to tackle flaws in the system, including the arrears of revenue. This project consists of the amalgamation of the CORTEX into the LECAM system. The relevant funds were only approved in 2010 and hence it was expected that the project is initiated during 2011.

NAO recommends COJ to urge MITA in rectifying the problem without further delay as this is hindering Government the timely collection of revenue due.

Breakdown of net collectable amount by COJ as at end of year

As at 31 December 2010, COJ had the amount of €8,329,158 as net collectable arrears. A breakdown of this amount is provided hereunder:

	Court Fines		Court Fees	Total
	Judges	Magistrates		
	€	€	€	€
Total	922,000	4,938,968	2,468,190	8,329,158

This outstanding balance is due from individuals and can be analysed as follows:

	€
Amounts outstanding for less than one year (2010)	2,379,827
Amounts outstanding for over one year but less than two years (2009)	1,649,068
Amounts outstanding for over two years but less than five years (2008 - 2006)	1,860,597
Amounts outstanding for over five years but less than ten years (2005 - 2001)	1,288,601
Amounts outstanding for over ten years but less than fifteen years (2000 - 1996)	903,487
Amounts outstanding for over fifteen years but less than twenty years (1995 - 1991)	15,836
Amounts outstanding for over twenty years (1990 - 1969)	231,742

Courts of Justice Division – Gozo Law Courts

The Return of arrears submitted by the Gozo Law Courts as at 31 December 2009 showed an outstanding balance of €493,717, comprising €246,291 in Fines and €247,426 in Fees.

On the other hand, the opening balances reported in the Return of Arrears showing position as at 1 January 2010, stood at €246,291 for Fines and €245,427 for Fees; hence, a discrepancy of €1,999 in the latter category due to the shortcomings in the computerised system.

Fines

During 2010 past arrears collected amounted to €100,936. An amount of €1,750 was written off since the fines in question were either appealed or revoked. This figure was netted off with an amount of €4,292, representing reversal of write-offs of fines which had been appealed in prior periods. Newly accrued arrears amounted to €76,992, giving a net collectable balance of €224,889 as at 31 December 2010.

However, following further investigation of the reported figures, it was noted that the balances included in the Fines Report, substantiating the ARR, are not reliable, and as a result correctness of amounts reported could not be ascertained.

The identified shortcomings which are briefly outlined below were pointed out to the Director – Gozo Law Courts, who took immediate action with the aim to resolve the issues internally, as well as with the assistance of the service provider supporting the computerised system.

- Fines which have been paid, but the amount is still being shown as outstanding and due.
- Fines issued to individuals who have served a prison term *in lieu* of the payment of the fine, still being reported as outstanding and due.
- Fines issued to individuals, who have since passed away, still being reported as outstanding and due.
- Fines overpaid by individuals, especially in cases where payments are being effected by monthly instalments, resulting in negative (-) outstanding balances.
- Discrepancy between the name of offender indicated in the actual fine, and the individual recorded in the Arrears of Revenue Report for the same fine.

Fees

As pointed out in prior periods, 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.

Past arrears collected during 2010 amounted to €10,855, while arrears newly accrued totalled €51,151, thus closing with a net collectable balance of €285,723 as at 31 December 2010.

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

	€
Amounts outstanding for less than one year	128,144
Amounts outstanding for over one year but less than two years	148,224
Amounts outstanding for over two years but less than five years	97,864
Amounts outstanding for over five years but less than 10 years	67,457
Amounts outstanding for over 10 years but less than 20 years	64,191
Amounts outstanding for over 20 years	4,732
Total	**510,612**

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).

Submission of Return and Initial Overview

The deadline of 1 April 2011 for submission of Return as imposed by Treasury Circular No. 3/2011 was not met since the final ARR was submitted on 10 June 2011.

As also noted and reported upon in the previous year, 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 the Treasury Circular, these balances are not shown separately in the detailed individual lists comprising these balances. Since no write-offs were reported in this year's ARR by the Department, it could not be ascertained whether action has been taken following NAO's observation.

Testing

Testing focused on previous years' arrears collected during 2010. A sample of 30 amounts collected were selected for testing amongst Weapons Licences, Services to Third Parties and Fines to Airline Companies. Amounts selected were traced to the respective receipts or bank credit advices.

Conclusion

Testing revealed that sporting licences amounting to €268 pertaining to one case, were in reality not collected by Police Department. In fact, the weapon holder's fees for the years 1996 to 2007 are still pending. Moreover, the relative file could not be traced by the Police.

Civil Protection

The Civil Protection Department reported a gross closing balance of €41,154. The gross opening balance of €33,642, differed to the reported gross closing balance of €33,095 as at 31 December 2009, due to the following adjustments:

- €847 in respect of the provision of fire fighting training services was omitted from the 2009 ARR since no invoice was issued; and
- €300 was deducted from the opening balance as two claims had been erroneously issued for the same amount during 2009.

Newly Accrued Arrears

Testing revealed that of the newly accrued arrears amounting to €35,771, a total of €30,419 (85%) was actually collected during 2011, whilst an amount of €5,352 (15%) was still outstanding.

Collectable Arrears

Arrears dated prior to 2010 consist of 12 claims amounting to €5,383 of which €2,795 relates to 2008 and €2,589 to 2009. The entire arrears were still outstanding except for an amount of €371 which was collected during 2011.

Conclusion and Recommendations

It was previously established that 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. Additionally, services to defaulters are stopped until any outstanding dues are settled.

It is recommended that the Civil Protection Department continues to enforce its debt collection policy and persists in regularly contacting defaulters over the phone to collect amounts due.

Ministries/Departments Arrears of Revenue 2010

Ministry/Department		Gross Outstanding on 31/12/2009	Collected during 2010	Written off 2010	Not due 2010	Arrears 2010
Office of the Ombudsman	€	15,302	15,302	0	0	13,743
Office of the Prime Minister	€	17,641	8,415	0	0	4,362
Armed Forces of Malta	€	1,358,067	1,213,642	0	18,657	1,960,641
Tourism	€	1,339,610	278,914	0	76,491	603,238
Information Department [d]	€	23,094	20,479	0	235	29,310
Government Printing Press [d]	€	432,172	252,234	0	0	229,641
Ministry for Gozo [d]	€	289,862	21,574	0	0	16,620
Gozo General Hospital	€	104,049	24,216	1,840	0	17,803
Ministry for Infrastructure, Transport and Communications	€	4,372,597	4,087,701	0	0	3,053,320
Transport Malta (ADT) [d]	€	12,740,122	0	0	0	2,847,606
Television Licencing Unit [c]	€	8,570,693	c	57,264	149,249	c
Malta Communications Authority	€	95,818	2,643	0	0	52,867
Civil Aviation	€	724,995	155,020	0	0	6,965
Land Registry [d]	€	76,704	1,634	0	0	20,734
Ministry for Resources and Rural Affairs [d]	€	1,378,513	628,797	21	5,251	1,096,535
Ministry of Education, Culture, Youth and Sport [d]	€	709,134	127,364	32,489	87,301	228,190
Ministry for Social Policy						
Social Security Benefits [a]	€	11,355,672	2,054,534	48,465	220,501	4,206,133
Social Welfare Standards	€	34,411	34,375	0	0	9,955
Health	€	2,366,889	623,670	8,660	1,135	1,068,374
Mount Carmel Hospital	€	511,470	171,000	0	11,374	242,614
Rehabilitation Karin Grech Hospital	€	493,141	307,250	0	50,098	809,394
Occupational Health and Safety Authority	€	0	0	0	0	1,529
Elderly and Community Care (including Welfare Committee) [a]	€	320,967	136,589	0	0	14,378
Industrial and Employment Relations	€	327,324	4,027	0	0	0
Ministry of Finance, the Economy and Investment:	€	410,272	407,778	0	0	496,990
Lotteries and Gaming Authority [a]	€	431,493	316,411	0	0	188,679
Notary to Government	€	203	203	0	0	665
Treasury (Pensions Section) [d]	€	25,994,149	62,451	0	0	2,457,899
Inland Revenue (including Tax Compliance Unit): Income Tax	€	565,024,078	1,386,993,999	0	471,837,161	1,946,677,183
Social Security Contributions Pre 1998 and Post 1998 [b]	€	a	b	b	b	b
Capital Transfer Duty: Duty on Documents	€	33,510,566	3,113,042	2,449	14,814,927	17,436,386
Death and Donation Duty (including Penalties)	€	5,195,795	54,883	333	1,295	1,114
Customs	€	12,116,711	5,023,514	2,365	5,318	510,760
V.A.T.	€	359,651,241	92,589,332	49,531	98,165,455	275,123,772
Contracts [d]	€	393,682	0	17,613	0	0
Economic Policy	€	0	0	0	0	1,007
Government Property Department	€	13,468,917	4,047,127	212,799	0	7,021,064
Commerce	€	4,713,142	981,957	0	13,328	1,248,923
Ministry for Justice and Home Affairs						
Attorney General	€	2,893	200	0	0	58
Judicial: Malta [d]	€	13,078,368	1,866,165	0	265,327	2,416,790
Gozo [d]	€	491,718	111,791	-2,542	0	128,143
Police	€	603,989	188,376	0	18,037	135,566
Civil Protection [d]	€	33,642	28,259	0	0	35,771
TOTAL [e]	**€**	**1,082,779,106**	**1,505,954,869**	**431,287**	**585,741,139**	**2,270,414,722**

a) Did not send Return of Arrears 2009.
b) Return of Arrears 2010 not submitted.
c) Information not available or incomplete.
d) Opening Balance 2010 does not tally with Closing Balance 2009 (vide comments).
e) Totals are incomplete in view of a) to d) above.

Gross Outstanding on 31/12/2010	Gross Variation	Amounts Est. as not Collectable	Net collectable arrears as at 31/12/2010	Net collectable arrears as at 31/12/2009	Net Variation	Due from Govt. Dept. & Para. Bodies	Individual & Private Companies
13,743	-1,559	0	13,743	15,302	-1,559	13,743	0
13,588	-4,053	0	13,588	17,641	-4,053	0	13,588
2,086,409	728,342	115,511	1,970,898	1,344,138	626,760	197,549	1,773,349
1,587,444	247,834	288,189	1,299,255	1,051,421	247,834	17,097	1,282,157
31,690	8,596	0	31,690	22,953	8,737	31,690	0
409,578	-22,593	0	409,578	428,369	-18,791	408,883	695
284,908	-4,954	27,050	257,858	267,521	-9,663	108,827	149,030
95,796	-8,253	55,296	40,500	c	c	0	95,795
3,338,216	-1,034,381	0	3,338,216	4,372,597	-1,034,381	3,338,216	0
15,587,728	2,847,606	0	15,587,728	9,821,345	5,766,383	0	15,587,728
9,720,666	c	3,888,266	5,832,400	5,142,417	689,983	100,000	5,732,400
146,042	50,224	0	146,042	95,818	50,224	c	c
576,940	-148,055	373,965	202,975	382,046	-179,071	0	202,975
95,804	19,100	20,770	75,034	24,858	50,176	0	75,034
1,840,979	462,466	356,092	1,484,887	662,526	822,361	545,010	939,877
690,170	-18,964	1,912	688,258	703,109	-14,851	267,221	421,037
13,238,305	1,882,633	0	13,238,305	a	a	0	13,238,305
9,991	-24,420	0	9,991	34,411	-24,420	9,991	0
2,801,798	434,909	239,444	2,562,354	2,066,210	496,144	3,600	2,558,754
571,710	60,240	441,450	130,260	c	c	58,779	71,481
945,187	452,046	844,129	101,058	c	c	101,058	0
1,529	1,529	0	1,529	c	c	0	1,529
198,756	-122,211	0	198,756	a	a	0	198,756
323,297	-4,027	241,558	81,739	134,473	-52,734	0	81,739
499,484	89,212	0	499,484	410,272	89,212	494,801	4,683
303,761	-127,732	286,567	17,194	a	a	0	17,194
665	462	0	665	203	462	615	50
28,389,597	2,395,448	0	28,389,597	7,649,127	20,740,470	28,361,472	28,125
652,870,101	87,846,023	531,970,384	120,899,717	101,791,810	19,107,907	c	c
b	b	b	b	a	a	b	b
33,016,534	-494,032	23,361,815	9,654,719	10,053,549	-398,830	0	9,654,719
5,140,398	-55,397	2,173,696	2,966,702	3,047,853	-81,151	0	2,966,702
7,596,274	-4,520,437	0	7,596,274	12,116,711	-4,520,437	207,983	7,388,293
443,970,695	84,319,454	406,501,140	37,469,555	31,250,358	6,219,197	c	c
376,069	-17,613	59,748	316,321	322,298	-5,977	0	316,321
1,007	0	0	1,007	0	1,007	0	1,007
16,230,055	2,761,138	0	16,230,055	13,468,917	2,761,138	3,999,078	12,230,977
4,966,780	253,638	340	4,966,440	4,713,142	253,298	0	4,966,440
2,751	-142	569	2,182	2,324	-142	c	c
13,363,666	285,298	5,034,509	8,329,157	5,427,913	2,901,244	0	8,329,157
510,612	18,894	0	510,612	493,717	16,895	0	510,612
533,142	-70,847	610	532,532	603,989	-71,457	22,366	510,166
41,154	7,512	0	41,154	33,095	8,059	17,182	23,972
1,262,423,020	**178,492,933**	**976,283,011**	**286,140,009**	**217,972,433**	**54,439,974**	**38,305,162**	**89,372,647**

Office of the Prime Minister

Local Councils

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

In February 2010, by means of Legal Notice (LN) 63 of 2010, a Local Governance Board was also set up by Government in order to investigate and decide on issues referred to it regarding any alleged abuse, bad decision or maladministration committed by an elected representative, Executive Secretary or any other official, which offence is not one of a criminal nature.

The Financial Statements being reported upon cover calendar year 2010, during which the Government allocated €30.01m (2009: €20.267m) to Local Councils. **Appendix A** refers. In 2009, 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 to 31 December 2009, which happens to be the comparative period to the current year.

In addition, for the year under review, the Government allocated €109,999 (2009: €75,000) 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 give a true and fair view. 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

Qualified Reports

Income Recorded from Local Enforcement System not substantiated

Besides San Ġiljan and Mosta Local Councils, which have been separately reported upon hereunder, LGAs were unable to determine the amount of income that another 29 Councils were entitled to receive from the Local Enforcement System (LES) following a pooling agreement, since the audited Financial Statements of the Joint Committees for the year ended 31 December 2010 were not yet available. Furthermore, no alternative acceptable audit procedures could be performed to obtain reasonable assurance on the completeness of the share of income or expenses recorded in the Financial Statements. **Appendix B** refers.

No Audit Opinion expressed

San Ġiljan Local Council

In line with the prior year, LGA could not express an opinion on the Financial Statements as presented by the San Ġiljan Local Council for the reasons highlighted hereunder. Furthermore, during the current financial year, the Council's accountant resigned and thus no audit adjustments proposed by LGA were passed in the Council's books of accounts.

With respect to income received from LES, the Financial Statements of the Council included €248,726 received up to January 2011. However, since the 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 in this respect.

As at 31 December 2010, the carrying amount of the Council's Property, Plant and Equipment in the Financial Statements amounted to €225,483. This figure could not be substantiated since the Fixed Asset Register (FAR) was not provided to LGA. Furthermore, the depreciation charge for the year in the Financial Statements is shown as €92,641 while LGA's estimate indicates that it should only amount to €24,000. Explanations for the difference were not provided.

Additionally, the Council did not follow the accounting treatment established for Government Grants as set out in its accounting policies included within the Financial Statements. Whilst the Council was entitled to grants receivable from the Malta Environment and Planning Authority (MEPA) amounting to €307,584, this amount could not be reconciled to the Council's records. Consequently, it could not be ascertained that reported figures for Deferred Income and Grants Reserve shown in the Statement of Financial Position of €44,490 and €1,139,777 respectively, as well as Income from Grants disclosed in the Statement of Comprehensive Income of €45,279, were not materially misstated.

Mosta Local Council

Due to the significance of the matters referred to in the following paragraphs, LGA have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

The Council does not maintain a FAR to record Fixed Assets acquired by it. Due to this reason, LGA could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the opening balance of Fixed Assets recorded in the Financial Statements, having a Net Book Value (NBV) of €1,179,879 as well as on the completeness of the depreciation charged thereupon.

The amount of €179,098 was recognised as Other Receivables. The main amount relates to funds receivable in relation to two projects co-financed in part by the European Union (EU). However, when comparing the amounts due in respect of these two projects, against claims made by the Council in relation to these projects and amounts already received, the amount due in this respect should be €129,440. As a result amounts under Other Receivables, Surplus for the year, as well as Retained Funds, are all overstated by €30,890. Additionally, there are a number of Other Receivables amounting to €18,768 for which no confirmation could be attained.

In addition to the above, the Council recognised the amount of €17,028 as receivable from the Water Services Corporation (WSC) in relation to amounts due for road re-instatement for 2007. When comparing the amount due as per confirmation from WSC with the amount recognised in the Financial Statements, it was noted that Receivables and Accumulated Funds have been overstated by €13,977. Moreover, the balances disclosed in the Financial Statements, in respect of amounts due for works carried out during 2008 and 2009 totalling €60,046, could not be substantiated since no confirmation has been forthcoming from WSC. Furthermore, the Council neither accrued for the amount of €4,800, representing balance due for period January to July 2010 as per letter from WSC, nor for an estimate of €3,429 to cover expenses for the period August to December 2010.

An additional amount of €175,786 was disclosed as accrued income. However, this amount did not correspond to the list of accrued income totalling to €115,312, which was presented by the Council. Moreover, except for €77,074 due in respect of reimbursements from WSC for road re-instatement, no further relevant documentation supporting this accrued income, was provided.

Throughout the testing of the payables of the Council, which amount to €770,328, a significant number of misstatements, arising out of the lack of proper accounting and recording of Payables, including accrued expenditure were encountered. In fact, from the substantive testing carried out by LGA, Trade Payables and Accruals have been understated by €46,331. Furthermore, there was no practical acceptable audit procedures LGA could perform, to obtain reasonable assurance that Trade and Other Payables amounting to €415,586 are free from material misstatement.

The Council has recognised €24,028 as income arising from LES. Due to the fact that no audited Financial Statements have been prepared by the Joint Committee, LGA could not obtain reasonable assurance on the completeness of the share of income recorded in the Financial Statements, as well as on any possible Accrued Income or Liabilities in existence as at end of the financial year under review.

Contrary to the guidelines provided by the Department for Local Government (DLG), whereby Government Grants are to be accounted for, using the income approach, in line with the requirement of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, the Council adopted the capital approach to account for Urban Improvement Funds (UIF).

The Local Councils (Audit) Procedures, 2006 contain specimen of the Financial Statements which Local

Councils should adhere to. It further stipulates that in the case where this specimen is not in conformity with International Financial Reporting Standards (IFRSs) the latter should prevail. The Council's Financial Statements for the period under review have been prepared in accordance with the specimen but did not take into consideration the additional requirements that emerge from the applicable IFRSs in relation to the various recognition, measurement and disclosure requirements. This contravenes the requirements of the same Procedures.

'Except for' Audit Opinion expressed

Only three Local Councils, namely Qormi, Mqabba and Zebbug (Malta) had a clean audit opinion. Apart from San Ġiljan and Mosta Local Councils, another 61[1] Audit Reports out of the 66 submitted were qualified with an 'except for' audit opinion, for one or more of the following deficiencies:

1. Fifty-one Local Councils' Financial Statements for the year under review were not prepared in their entirety in accordance with IFRSs since they lack appropriate disclosures mainly in respect of IAS 1 - Presentation of Financial Statements, IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, IAS 24 - Related Party Disclosures and IFRS 7 – Financial Instruments.

2. Other specific issues for the Local Councils on an individual basis.

3. The going concern assumption used in the preparation of nine Financial Statements is dependent on further sources of funds other than the annual financial allocation by Central Government, the collection of debts due to the Local Councils, and the continued support of the Council's payables. Any adverse change in either of these assumptions would not enable the respective Council to meet its financial obligations as they fall due without curtailing its future commitments.

In addition to the above, as already referred to under 'Key Issues', a number of audit reports were also qualified on the basis that amounts due from the LES could not be determined. This shortcoming falls outside the control of the respective Local Councils. Relevant comments feature under a separate heading in this report titled 'Joint Committees'.

The Local Councils concerned and related qualifications are listed in **Appendix B**.

Furthermore, a significant number of Audit Reports have been qualified because, besides the other shortcomings mentioned above, the Financial Statements did not include the budgeted figures. However, since Local Councils are now accounting on an accruals basis, such a requirement is no longer applicable. Consequently, these Councils were not included in the list of qualified Audit Reports in Appendix B, as it was deemed unfair to report them merely because an amendment to the Financial Procedures has not yet been effected by DLG.

Negative Working Capital

Seven Local Councils (31 December 2009: 11), incidentally all in Malta, registered a negative Working Capital[2] during the year under review. This could imply that they may encounter difficulties in meeting their obligations when due.

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

Birgu

The movement in the Working Capital position during

Table 1 – Negative Working Capital

Local Council	31 December 2010	31 December 2009	31 March 2009
	€	€	€
Birgu	(153,571)	(154,163)*	(86,788)
Birkirkara	(549,262)	(433,015)*	(609,769)
Bormla	(72,684)	37,123*	229,802
Isla	(848)	8,418*	9,379
Lija	(8,509)	40,074	58,973
Rabat (Malta)	(134,444)	(124,887)	145,298
San Ġwann	(38,266)	(85,590)*	(173,074)

[1] Sixty-one Audit Reports represent 92% (31 December 2009: 67.19%) of all the submitted Financial Statements.
[2] Working Capital is defined as Current Assets less Current Liabilities.
* Comparative figure has been re-stated to reflect prior year adjustments passed during the current financial period.

the current year was insignificant. The increase in Receivables of €29,739 at year-end over the prior period was almost equivalent to the reduction of €12,477 in Cash and Cash Equivalents, and an increase of €16,670 in Payables during the same period.

Birkirkara

The Council's financial situation in 2010 continued to deteriorate when compared to that of the prior period. This was due to the fact that an increase of €163,554 in Current Assets, of which €127,884 represent an increase in Prepayments and Accrued Income, was totally outweighed by the considerable increase of €279,801 in Payables.

Bormla

The financial position of the Council worsened, closing the financial year with a negative Working Capital of €72,684, from a positive balance of €37,123 in the prior period. This shift was mainly due to an increase in Payables and the Bank Overdraft, of €53,147 and €8,239 respectively. This was coupled with a decrease in Current Assets of €48,421 arising mainly from Trade and Other Receivables. While Cash and Cash Equivalents remained fairly stable, Payables increased by 112% during the current year.

Isla

The Council's Current Liabilities exceeded Current Assets by €848 and from a positive financial situation during the prior year, the Council moved to a negative position. This was brought about by a decrease in Trade and Other Receivables, LES Receivables and the related Provision for Doubtful Debts.

Lija

From a positive Working Capital of €40,074 recorded at the end of the previous period, the Council closed the current financial year with a negative Working Capital of €8,509. While an increase of €22,171 was experienced in Current Assets, this was outweighed by the significant increase of €80,788 in Trade and Other Payables, which was mainly due to an increase of €14,728 in the Bank Overdraft and an increase of €54,589 in Accrued Expenditure. This was coupled with a decrease in Cash and Cash Equivalents of €10,122 when compared to the prior financial period. As a result of the above, the Council's deficit also increased from €7,883 in 2009 to €20,308 in 2010.

Rabat (Malta)

The Council's Current Liabilities exceeded Current Assets by €134,444, further weakening the financial situation of the Local Council. Though the Council managed to decrease Payables by €41,808, Accrued Expenditure and Deferred Income increased by €50,767. A decrease in Receivables of €16,280, which was only partly covered by the increase of €8,147 in Cash and Cash Equivalents, was also registered.

San Ġwann

Though the Council's negative Working Capital situation has still not been cleared, the financial situation is being gradually strengthened when compared to the prior period. The negative Working Capital balance has decreased by €47,324 by the end of the current year. This was mainly brought about by a reduction in Payables of €42,750 (25%). At the same time, the Council managed to increase the Bank balance by €8,923, while Current Assets and Liabilities remained fairly stable.

Improvement in Working Capital

Table 2 indicates five Local Councils which improved their financial position by the end of this year, from a negative to a positive Working Capital.

Financial Situation Indicator (FSI)

The Local Councils (Financial) Regulations, 1993 Article 4(1)(c) compel the Executive Secretary to maintain a

Table 2 – Improvement to Working Capital

Local Council	31 December 2010	31 December 2009	31 March 2009
	€	€	€
Pieta'	140,047	(8,702)*	8,351
Qormi	68,458	(26,258)*	89,370
Sannat	79,214	(14,773)*	74,314
Xagħra	135,435	(12,995)	(82,909)
Żebbuġ (Malta)	203,919	(117,154)	312,642

* Comparative figures have been re-stated to reflect prior year adjustments passed during the current financial period.

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.

Seventeen Local Councils (2009: 20) registered an FSI below the 10% benchmark as required by law. These are shown in the table hereunder.

Statement of Comprehensive Income[3]

Sixteen Councils (2009: 21) registered a deficit in the Statement of Comprehensive Income for the year. Table 4 presents the locality, the deficit for the period under review and the corresponding figures for the previous two financial periods.

However, the surplus/deficit as reported by Local Councils during the year under review cannot be directly compared to that of the prior period since the figures of the latter related to nine months' operations.

The following were reasons attributed to the deficits which, as indicated in the above table, have been reported by Local Councils at the end of the current year, when compared to the prior period.

Table 3 – Financial Situation Indicator

Local Council	Government Allocation 1 January – 31 December 2010[4]	Current Assets less Liabilities 1 January – 31 December 2010	FSI 1 January – 31 December 2010	FSI 1 April – 31 December 2009
	€	€	%	%
Attard	531,021	31,805	5.99	5.21
Birgu	246,298	(153,571)	(62.35)	(92.02)
Birkirkara	1,081,144	(647,179)	(59.86)	(58.97)
Bormla	373,125	(72,684)	(19.48)	14.82
Isla	246,756	548	0.22	5.11
Kalkara	228,168	19,425	8.51	2.14
Kerċem	232,628	8,305	3.57	41.37
Lija	227,312	(8,509)	(3.74)	25.49
Mdina	178,878	13,940	7.79	164.01
Qala	248,164	20,887	8.42	2.61
Qormi	981,507	75,710	7.71	(15.27)
Rabat (Malta)	935,178	(134,444)	(14.38)	(19.71)
San Lawrenz	141,925	(19,225)	(13.55)	0.36
San Ġwann	645,029	(56,049)	(8.69)	(22.86)
Santa Venera	365,229	28,619	7.84	5.73
Sliema	921,476	43,315	4.70	91.95
Żebbuġ (Malta)	702,659	34,216	4.87	(25.94)

[3] A deficit in the Statement of Comprehensive Income results when the cost of expenditure is greater than revenue.
[4] Government Allocation in terms of Section 55 of the Local Councils Act as provided by DLG.

Table 4 – Deficit in the Statement of Comprehensive Income

Local Council	1 January – 31 December 2010	1 April 2009 – 31 December 2009	1 April 2008 – 31 March 2009
	€	€	€
Attard	(38,898)	23,114	(127,364)
Birgu	(13,903)	(70,424)*	(94,787)
Birkirkara	(16,586)	124,540	(292,127)
Bormla	(122,481)	(50,120)	21,306
Isla	(17,503)	(21,628)*	(5,277)
Kirkop	(14,433)	(5,133)	65,575
Lija	(20,308)	(7,883)	(29,475)
Mdina	(138,604)	(26,528)	17,091
Mtarfa	(74,430)	(4,321)	21,699
Munxar	(34,302)	1,346	(6,879)
Paola	(5,520)	(17,987)	16,403
Pembroke	(22,024)	(21,861)	(60,980)
Qrendi	(9,394)	34,675	49,796
San Lawrenz	(7,847)	36,799	(6,873)
Sliema	(95,276)	99,284	191,777
Żabbar	(101,821)	(23,302)	(60,083)

Attard

This resulted mainly from increases in Personal Emoluments, Repairs and Upkeep of Road and Street Pavements and Road Markings, Waste Disposal, Utilities, Social and Cultural Events as well as Depreciation expense. Moreover, as highlighted in the Management Letter, upon the recalculation of the depreciation charges, LGA noted that this expense is overstated by €8,812 in the Financial Statements.

Birgu

Though the position from the prior period improved, the Council still ended the year with a deficit. While Income increased significantly, especially that arising from Funds Received from Central Government, an increase in expenditure was likewise registered. Employees' Salaries, Professional Services, Waste Disposal, LES Expenses, Overseas Travelling, Community and Hospitality, as well as expenditure related to Local Enforcement, experienced substantial increases in 2010 when compared to 2009.

Birkirkara

While an increase of almost 4.7% was experienced in the overall Income of the Council, the increase in Expenditure amounted to 20.4%, when compared to the extrapolated figure of 2009. The deficit for the year was mainly brought about by a new expense related to Waste Disposal which amounted to €139,022 in 2010, compared to a nil figure in the previous year. There were also substantial rises in Personal Emoluments, Bulky Refuse Collection, Cleaning and Maintenance of Parks and Gardens, and Studies and Consultations. Other leading expenditures related to Utilities, Architect and Engineering Services, Cultural Events, Community Services, Youth Empowerment, as well as Health Inspector Services and Handyman Services. Furthermore, a Provision for Doubtful Debts amounting to €19,092 was recognised to cover LES Receivables outstanding for more than two years which may remain unrecoverable. This also contributed to the increase in deficit.

Bormla

While the income earned by the Council remained fairly stable, if a comparison is made between 2010 figures and the extrapolated figures of the preceding financial period, one can note substantial increases in Expenditure. An amount of €100,143 paid for Personal Emoluments in 2010 was more than double the expenditure when compared to the extrapolated figures in the prior period. In addition, there were also considerable increases in Refuse

* Comparative of the preceding period has been restated to reflect prior year adjustments passed during the current financial year.

Collection, Tipping Fees, Utilities and the Provision for Bad Debts.

Isla

During the current year, there was a slight improvement in the Council's financial situation when compared to the prior period. An increase of €20,557 in Income, arising mainly from Funds Received from Central Government, was higher than the extrapolated increase of €9,223 in Expenditure. However, the Council still experienced a deficit during the year. Besides Personal Emoluments, expenditure on Refuse Collection, and on Community and Hospitality, were the highest costs recorded.

Kirkop

The overall increase of €18,715 in the Council's expenditure slightly outweighed the extrapolated increase of €11,126 in its income. This was evidenced with an increase in Funds Received from Central Government and General Income, together with a decrease in Income received under LES. Substantial increases were noted in expenditure relating to Personal Emoluments, Waste Disposal, Professional Services and the new expenditure in connection with the Project Opportunities Close to Home, forming part of the European Social Fund.

Lija

During the current year, the financial situation of the Council deteriorated even further. The deficit reported at year end was almost twice as much that reported during the prior year. The increase of €14,537 in income was not enough to sustain the rise in expenditure incurred during the year due to noteworthy increases in Employees' Salaries and Refuse Collection.

Mdina

No income from Local Enforcement was recorded in 2010, compared to €28,052 earned during the nine-month operations period in 2009. Coupled with this was a throughout increase in Expenditure, which led the Council to a deficit of €138,604 during the current financial year. Personal Emoluments increased by €18,353, mainly due to increases in Allowances given to the Mayor and to the Councillors, as well as increases in Employees' Salaries. In the meantime, there were also significant increases in certain Expenditure Items, including Refuse Collection, Cleaning and Maintenance of Parks and Gardens, Travel, Community and Hospitality, and Depreciation Charges.

Mtarfa

While no movement was experienced in the Council's income, a general increase of €63,943 was noted in the overall expenditure incurred during 2010 compared to the extrapolated figures of the previous financial period. An amount of €19,214 relating to Overseas Travelling was expensed in 2010, while expenses relating to Personal Emoluments, Waste Disposal, Cleaning and Maintenance of Parks and Gardens, and Utilities, only increased by €45,064 in total.

Munxar

Increases of €47,323 in Depreciation, €9,049 in Road and Street Pavements, €8,190 in Street Lighting and €8,732 in Personal Emoluments, were the main contributors to the Local Council's negative position in its Statement of Comprehensive Income during the current year, when compared to the extrapolated figure of the prior period. Furthermore, a new expenditure of €29,750 was incurred in respect to Xlendi Maintenance and Upkeep. On the other hand, there were decreases of €34,376 in Restoration Works in connection to *'Mitħna'*, and €30,401 on Community Services and Events in 2010, when compared to extrapolated figures as at end 2009.

Paola

Despite that the negative position has improved by year end, when compared to the prior period, the Local Council is still experiencing a deficit situation. The general increase of €94,262 in the Council's income was not sufficient to absorb the incurred expenditure. Although certain expenditure items, such as Utilities and Bad debts written off, decreased during the current year, an overall increase of €75,800 was still noted in other categories. This included higher expenditure on Road and Street Pavements Repairs, Street Lighting Maintenance, Sundry Repairs, Cleaning and Maintenance of Soft Areas, Waste Disposal, Operating Materials and Supplies, Public Relations, Professional Services, Twinning Expenses and Travel.

Pembroke

The increase of €32,473 in income generated by the Council during the current year, coupled up with a decrease of €11,867 in Operations and Maintenance Expenditure was not sufficient to sustain significant increases in Personal Emoluments and Administrative and Other Expenses of €12,870 and €24,346 respectively. The increase in Administrative Expenses was brought by higher Travelling, Advertising and Public Relations expenses and Depreciation charges. Furthermore, whilst during the prior nine month period reported expenditure in respect of Utilities totalled to (€3,146), during the current year the amount of €7,507 was disclosed under the same category.

Qrendi

The Council's negative position was brought about by the fact that while income in 2010 increased by almost 7% when compared to the prior nine-month period of operations, expenditure increased by more than 28%. Increases were significant for Repairs and Upkeep of Public Property, Waste Disposal, Cleaning and Maintenance of Public Conveniences and Non-Urban Areas, LES as well as Professional Services. There was also a notable increase in the Executive Secretary and Employees' Salaries of €15,884.

San Lawrenz

Whilst during the current year, except for Personal Emoluments, expenditure incurred has decreased when compared to prior year, Funds received from Central Government increased by €8,559. However, this was not enough to sustain a significant decrease of €64,404 in General Income, thus resulting in a deficit position. The shortfall in General Income was mainly the result of a substantial decrease in income from Twinning and Youth Exchange, as well as from 3D *Dwejra Festival*.

Sliema

The reported deficit was the result of a decrease of €99,287 in the income earned by the Council throughout 2010, coupled up with an overall increase of €129,479 in expenses incurred when compared to that reported during the prior year. The considerable decrease in income raised under LES, which totalled to €198,374, fully outweighed the increase of €99,087 disclosed under the General Income categories. On the other hand whilst Road and Street Pavements, and Other Repairs and Upkeep expenses decreased considerably, a significant increase was reported for Personal Emoluments, Waste Disposal, Refuse Collection and Cultural Events.

Żabbar

The overall proportionate increase of €74,489 in income was totally outweighed by the significant increase in expenditure of €145,240, resulting from substantial increases in spending on Personal Emoluments, Maintenance of Council Property, Disposal Fees deposited at Landfill, as well as LES expenses.

Rectified Positive balance between Income and Expenditure

The following 14 Local Councils rectified their position to a surplus by the end of the year under review:

Table 5 – Rectified Positive balance between Income and Expenditure

Local Council	31 December 2010	31 December 2009	31 March 2009
	€	€	€
Kalkara	39,269	(17,164)	5,584
Luqa	112,221	(78,098)	91,320
Marsaxlokk	40,630	(8,299)	(21,320)
Mosta	136,671	(22,851)	45,296
Msida	80,572	(21,586)	13,045
Naxxar	67,996	(91,040)*	(8,410)
Pieta'	64,841	(30,676)	(142,360)
Qala	6,741	(4,797)	1,885
Rabat (Malta)	58,016	(39,151)	60,170
Sannat	16,250	(7,372)*	10,037
Tarxien	92,794	(76,342)	41,932
Żebbuġ (Malta)	93,271	(155,658)	64,716
Żebbuġ (Gozo)	90,252	(25,297)	13,227
Żurrieq	111,231	(194,912)*	45,352

*Comparative figures have been re-stolen to reflect prior year adjustments passed during the current financial period.

Control Issues

LGAs identified a number of control issues necessitating improvement:

a. Budgeted expenditure for certain expenses exceeded.

b. Established limit for petty cash expenditure exceeded.

c. Cash from custodial receipts and from other general income not deposited on a twice weekly basis as required by the regulations.

d. Reimbursement to Councillors and Local Council employees not fully supported by the appropriate documentation.

e. No system of Purchase Request Forms and Purchase Orders maintained.

f. Payment Vouchers either not signed or not included in the Schedule of Payments for approval.

g. 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.

h. Vacation leave and sick leave not documented properly for easy reference as to the number of unutilised leave remaining.

i. No proper receipt was issued by the Council in respect of income received and/or activities organised, especially when the source was from a Government entity, Department or another Local Council. Thus, income recording system in use did not entail a proper audit trail.

Compliance Issues

Finalisation of Annual Financial Statements

In accordance with the Local Councils (Audit) Procedures 2006 (P2.05) and instructions issued to Local Councils through memos by 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 21 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 Comprehensive Income;
c. Statement of Financial Position;
d. Statement of Changes in Equity;
e. Statement of Cash Flows;
f. Notes to the Financial Statements; and
g. Schedule of Special Needs Funds (where applicable).

Forty-two (2009: 11) out of 68 Local Councils managed to submit the respective unaudited Financial Statements by the required deadline of 21 February 2011. Although NAO notes this positive development, it is expected that all Local Councils make the necessary effort to ensure that the required information is submitted by the established timeframes. A further 12 Local Councils managed to submit the accounts by the end of that same week. **Appendix C** refers. The remaining Local Councils kept prolonging until the end of May 2011, while in the case of the Naxxar Local Council, these were only submitted on 25 July 2011, since the Council's accountant changed twice during the preparation of these accounts. In addition, LGAs encountered difficulties to accept certain accounts presented for audit purposes due to the number of errors contained therein. 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 19 audited Financial Statements and Management Letters (2009: 10) were delivered by the stipulated deadline of 2 May 2011 in accordance with the Local Councils (Audit) Procedures 2006 and relevant instructions issued by DLG. Another 24 audited Financial Statements reached NAO by the end of May 2011, while the other 23 kept delaying the submission. The Financial Statements of two Local Councils, namely Mġarr and Rabat (Gozo) were not submitted at all by mid-October 2011 being the ultimate deadline set, for analysing of audited Financial Statements, by NAO. **Appendix D** refers. Local Councils are expected to take all necessary action to ensure the timely submission of proper and accurate Financial Statements.

Concerns encountered in a large number of Local Councils

Financial Statements not compliant with International Financial Reporting Standards

During meetings held by this Office, with the relevant stakeholders, the issue of continuously having Local Councils' Financial Statements not compliant in all respects with the requirements of the IFRSs, thus necessitating an 'except for' qualified audit opinion, was repetitively raised by the respective LGAs.

With the launching of General Accounting Principles for Smaller Entities (GAPSEs) during 2009, which aimed at establishing a 'leaner' financial reporting framework for small entities, and therefore reducing the cost to smaller companies who have in the past been made to comply with the heavy reporting requirements of IFRSs, LGAs enquired whether Local Councils could possibly fall within the scope of GAPSEs.

Guidance on this subject was sought by NAO from the Ministry of Finance, the Economy and Investment in March 2010, who concluded that GAPSEs are not applicable to Local Councils and maintained that the latter are obliged to abide by IFRSs. However, Subsidiary Legislation 281.03 Accounting Profession (General Accounting Principles for Smaller Entities) Regulations disclose that such financial principles can be adopted by state-owned entities on the premise that these do not exceed two of the following three criteria:

i) Balance Sheet total: €4,400,000 or the equivalent thereof, converted at the average rate of exchange for the financial reporting period;

ii) total revenue: €8,800,000 or the equivalent thereof, converted at the average rate of exchange for the financial reporting period; and

iii) average number of 50 employees during each of the two consecutive financial reporting periods immediately preceding the relevant financial reporting period.

Furthermore, during a Public Accounts Committee Meeting held on 6 April 2011, throughout which the report of the Auditor General on Local Councils for the year ended 31 December 2009 was discussed, the Minister responsible for Finance claimed that IFRSs are too complex for Local Councils and the latter's financial reporting is to be facilitated. However, no further guidance to Local Councils was provided on the way forward.

Incorrect treatment of Government Grants

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 – Accounting for Government Grants and Disclosure of Government Assistance, was to be applied by all Local Councils when accounting for such funds. Hence, grants received to acquire items of Property, Plant and Equipment should initially be treated as deferred income. The income is to be subsequently recognised on a systematic and rational basis in accordance with the useful life of the asset, i.e. a portion of the income is to be transferred every year to account for the depreciation charge.

Such accounting treatment was also highlighted in Memo 150/2010 – *'Għeluq tas-Sena Finanzjarja'* issued by DLG on 23 December 2010, whereby, the latter provided guidelines to be followed by Local Councils in preparing their Financial Statements for the year ended 31 December 2010. However, from concerns raised in the Management Letter prepared by LGAs, it transpired that certain Local Councils are still adopting an incorrect treatment for the recording of such grants. The main concerns highlighted relate to:

- Income from grants still accounted for using the capital approach;
- Grants recognised in full as income in the year they were received, rather than matched with the related costs which they were intended to compensate on a systematic basis;
- Government grants receivable with respect to a project which has been completed by the end of the financial year under review, not accounted for;
- Deferred Income not amortised in line with the corresponding depreciation of the asset, even though the project for which grants were provided was completed by the end of 2010;
- Grants received in excess of the expenditure incurred on particular projects, still included under income for the year even though they would have to be refunded back;
- In certain cases, neither the Income nor, the Capital Approach, was adopted to account for the grants received.

Amounts due from Water Services Corporation

Another concern affecting a large number of Local Councils was the issue with 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 the Corporation. However, these amounts were never settled and the original agreement between the individual Local Councils and WSC, signed in 2002, has now expired.

In the prior period ending 31 December 2009, LGAs had recommended that the Councils were to refrain from accruing for this income and were to 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 were still of the opinion that the balances were fully recoverable and did not take action. On the other hand, some Councils reversed the accrued income as per LGAs' recommendation, while others did not accrue for any further income as from the financial period 2009.

While a new agreement was being negotiated between LCA and WSC, in March 2010, the latter agreed to pay all arrears to Local Councils for the years 2007, 2008 and 2009. In fact, WSC sent a list of works carried out and requested confirmation from the Council so that the actual amount payable to the latter could be calculated. However, despite of these new amendments, a number of Local Councils still refrained from accounting for accrued income receivable from WSC. This was only adjusted for in the Financial Statements upon LGA's recommendation.

Mayor's Honoraria and Councillor's Allowances 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 Inland Revenue Department (IRD) and LCA that has not as yet been resolved. Instances have been encountered whereby the Mayor's remuneration was considered as 'Part-time' emolument when declared in the Final Settlement System (FSS) documentation, thus taxed at 15%. Other tax rates of 20% and 25% on the Mayor's Honoraria have also been noted.

Likewise, tax on the Mayors' and Councillors' allowances was not always deducted at the rate of 20% in accordance with memo 26/2010 issued by DLG. Cases were traced where a lower or a higher tax rate was applied.

Tipping fees payable to WasteServ Malta Limited in dispute

Upon reconciling balances due to WasteServ Malta Limited with the supplier's statements, a number of differences emerged. LGAs were informed that the Councils are refusing to pay certain invoices on the basis that the total amount owing to WasteServ Malta Limited during 2010 exceeded the portion of Government allocation intended to cover tipping fees, and thus these were not accounted for. This is in line with instructions received from LCA through a circular dated 26 July 2010. However, following adjustments proposed by LGAs, a number of Local Councils, subsequently reflected these amounts in the books of accounts, while others simply disclosed this issue as a contingent liability note in the Financial Statements. Amounts in dispute are shown in **Appendix E**.

Local Councils' response following Management Letters

Management Letters highlighted a number of audit findings and relative recommendations. As at 13 June 2011, or six weeks after the Audit Report, only 27 out of 66 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, 24 Local Councils exceeded the stipulated deadline to submit their reply to the Management Letter while another 15 Local Councils failed to submit a reply, up to the time of writing of this report, i.e. end October 2011 – this being an issue of grave concern to NAO. Not even bothering to reply to NAO's Management Letter indicates a total lack of willingness on the part of these Local Councils to address the shortcomings identified. **Appendix F** refers.

Repetitive weaknesses reported in the Management Letter

During various meetings held 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 any apparent remedial action being taken. This has also been reported upon in the preceding year and is definitely not acceptable.

It is evident that, as already emphasised above, certain Local Councils simply ignore these Management Letter points indicating a total lack of accountability on the part of the respective Councils. Most Local Councils have common problems, mainly relating to the proper upkeep of the FAR, unrecorded liabilities at year-end and non-abidance to the procurement procedures, apart from the proper accounting treatment of grants. As indicated earlier on, another concern is the poor quality of a number of Financial Statements presented for auditing. Consequently, at times LGAs had to carry out accounting tasks where the presented accounts did not meet the required standard.

Two memos, entitled *'Nuqqasijiet mill-Kunsilli Lokali'* and *'Għeluq tas-sena Finanzjarja'* respectively, were issued in the preceding year in an attempt to address this problem. Through these memos, DLG highlighted the main weaknesses that have consistently been encountered by LGAs in the majority of Local Councils, as well as outlined how these are to be addressed. Furthermore, it provided guidelines on the processes to be followed in the preparation of both the Councils' Financial Statements and their reply to the Management Letter for the year ended 31 December 2010. However, very little improvement, if any, was registered by certain Local Councils.

Areas of Concern

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

1. Property, Plant and Equipment
2. Accounting
3. Local Enforcement System
4. Procurement
5. Salaries
6. Debtors
7. Creditors
8. Cash and Cash Equivalents
9. Invoices
10. Provisions outlined in the Subsidiary Legislation

Appendix G lists the Councils where the above mentioned weaknesses were encountered and the frequency of their occurrence. An indication of the most material weaknesses is also listed hereunder:

Property, Plant and Equipment

a. FAR not maintained or not provided to LGA.

b. FAR kept on Microsoft Excel rather than on the Sage accounting system.

c. FAR not updated with additions and lacking necessary details to identify the existence and location of the assets.

d. FAR included a number of general audit adjustments without any reference to a particular asset.

e. Assets sold, disposed of, or no longer in use by the Council, not written off in FAR and/or in the Nominal Ledger and depreciation still being charged on them.

f. Discrepancies between cost and accumulated depreciation as recorded in Nominal Ledger, FAR and Financial Statements.

g. The cost of a project capitalised under the wrong Fixed Asset Code and thus the wrong depreciation rates taken.

h. Depreciation charge calculated manually and/or posted once a year rather than on a monthly basis.

i. Software automatically attached the Depreciation Start Date as the first day of the month following the purchase date, instead of commencing from the date of acquisition.

j. Assets over or under insured, apart from inconsistency between Local Councils on whether the insurance policy should cover the cost or NBV of the items.

k. Assets capitalised when payments were effected rather than when the project was completed and its economic useful life began.

l. Large number of accounts for different fixed assets created, which can be grouped together for better classification.

m. Certain assets in Nominal Ledger having a negative NBV.

n. Invoices of additions to fixed assets grouped in batches and entered as one total in the Nominal Ledger.

o. Additions included in FAR during 2010 with a purchase date prior or subsequent to the year under review.

p. Headings used in current year's fixed assets schedule and/or Nominal Ledger not consistent with those used in the previous year.

q. Opening balances in current year's fixed assets schedule not agreeing to prior year's closing balance.

r. Assets not classified under the same category on a consistent basis.

s. Assets still under construction, erroneosly included in FAR, with depreciation being taken during those years in which the assets were not yet ready for use.

t. Cost of fixed asset additions in current year included retention money paid in respect of projects which were finalised in prior years.

u. The Local Council's approval for the acquisition of assets not traced.

v. Intangible assets such as computer software erroneously included with tangible fixed asset categories rather than shown separately in the Statement of Financial Position.

w. Architect's certificates provided on particular projects not signed or not even traced.

x. A detailed list of items written off during the current year was not provided and thus LGA was unable to test the cost and accumulated depreciation of these assets.

Accounting

a. Understated / overstated accrued expenditure and accrued income at end of year.

b. Prepayments either not calculated accurately, based on actual amounts paid and exact periods covered, or not included in Nominal Ledger.

c. The opening balance of accruals and/or prepayments not reversed at the beginning of the year, or wrongly reversed as a prior year adjustment.

d. Opening balances in Nominal Ledger brought forward from prior period not in agreement with the closing balances of last year's audited Financial Statements.

e. Discrepancies between figures recorded in the Financial Statements and those in the respective accounts in the Trial Balance.

f. Groupings of expenses shown in the Financial Statements not consistent with prior year's groupings.

g. No proper stock control system and appropriate accounting in force, in respect of inventory held by the Council, thus no physical stock-take could be performed.

h. Certain inventory was expensed, rather than capitalised in the Statement of Financial Position, and was not covered by an insurance policy.

i. Income and expenses of the Council accounted for on a cash basis and only recorded in the system when income is received or expenditure is paid.

j. Difference between amount recognised in the Financial Statements as 'Funds received from Central Government' and the actual annual financial allocation, due to certain fees charged, such as Bring-In-Sites and e-Government fees, netted off from the Government allocation.

k. Interest received on bank accounts subjected to 15% withholding tax, when Local Councils are exempt from taxation.

l. The fair value used by the Council for investments expressed as at 30 September 2010 rather than at 31 December 2010.

m. The movement in fair value of investments recognised as investment income rather than as a change in the value of an available-for-sale investment.

n. Income recorded in the wrong Nominal Ledger account.

o. Income received in the form of vouchers to be redeemed from particular suppliers, not accounted for.

p. Rent paid in respect of the yearly use of a football ground capitalised as a fixed asset addition.

q. Councils accrued for expenses for which invoices were already received during the year. Amounts should have been recognised as creditors and not as accruals.

r. Expenditure accounted for net of Value Added Tax (VAT) even though VAT is not recoverable.

s. No proper accounting, and lack of disclosures in the Financial Statements made, for the acquisition of motor vans on a hire purchase basis, requiring to be accounted for as a finance lease.

t. LGA was not provided with WSC road agreement or confirmation to support recorded accrued income due to the Councils for 2008 and 2009.

u. Inaccurate apportionment of deferred income and/or bank loan into short-term and long-term.

v. The Council started to enter transactions for the subsequent year before having concluded the 2010 year-end procedures.

Local Enforcement System

In line with previous years, LGAs still encountered outstanding LES Receivables which were older than two years but which were not provided for. This increases 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. For an unknown reason, this is not taking place and is an issue which is effecting all Local Councils. However, amounts due are still being recorded as outstanding. Guided by the principle of the prudence concept, a full provision is expected to be taken at least 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, thus failing to show a true and fair view of the Financial Statements. 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 encountered during the audits included the following:

a. As indicated earlier on under Key Issues, the annual audited Financial Statements of the Joint Committees for the year ended 31 December 2010 were not submitted to the respective Local Councils. Consequently, LGAs could not rely on independent audited information to provide reasonable assurance on the income from LES being recorded by Local Councils in their Financial Statements.

b. Income, Receivables and Provisions for Doubtful Debts relating to LES were understated or overstated.

c. Discrepancies between LES generated income as reported in the Financial Statements and income recorded in the LES reports made available to LGAs.

d. No LES reconciliation carried out by Councils to identify LES pending receivables.

e. Amounts recognised as receivables not based on actual balances due at year-end but on outstanding balances at the date when the LES report was issued from the system.

f. No information provided in connection with long outstanding balances.

g. The Council's income and receivables do not comprise contraventions paid online through the LGD, at other Local Councils and at the Licencing and Testing Department.

Procurement

Non-abidance with 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. 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 with the Local Councils (Tendering) Regulations, 1993 and the Local Councils (Tendering) Procedures, 1996 with respect to purchases exceeding the cost of €4,659.

However, in their Management Letters, LGAs highlighted a number of weaknesses indicating that the majority of Local Councils are not always adhering to the rules cited above. The main areas of non-compliance include:

a. Call for quotations neither published in the Government Gazette nor in a local newspaper as stipulated in Memo 1/2010, or else evidence of the advert not provided to LGA.

b. Expenditure exceeding the stipulated amounts, not covered by a call for quotations or tenders, or only one quotation obtained.

c. The Local Council did not adhere to the terms and conditions of the contract, but renegotiated different terms than those stipulated.

d. The Council utilised expired contracts or resorted to direct orders, without issuing new contracts, for example in the case of street lighting.

e. Applications for tenders kept open for the public for less than 30 days.

f. Tender documents not properly filled up by the bidder, with the Council accepting them as correct.

g. Contracts entered into by the Council not available or not signed by all parties.

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

i. Purchase Orders provided to LGAs either dated outside the financial year or after the date of payment and/or did not include the purchase price.

j. Bank guarantees in favour of third parties not disclosed in the Financial Statements.

k. Performance bonds expired before the lapse of the contract period.

l. Performance guarantees were dated two months after the signing of the contract.

m. Schedule of tenders list not underlined to indicate cut-off after the last tenderer, indicating the end of the list.

n. The amount paid to a supplier higher than the amount as per tender.

o. Work not completed even though contract stipulates a completion date by year end.

p. No copy of the contractor's third party liability insurance kept by the Council.

q. Contract not indicating the commencement date and duration period.

r. Contract work not certified by a contracts manager or by a professional architect.

s. Tenders not awarded to the cheapest bidder, with no explanation to justify this approach.

t. Contract commenced before it was signed by the winning bidder and the Council.

u. Despite that the adjudication board was not in a position to make a conclusion based on the rates submitted by all the bidders, the Council still awarded the tender to a contractor who had previously performed work for the Council satisfactorily.

v. The Department of Contracts requested the Council to reissue tender since it was deemed that the original tenders were misleading.

Salaries

a. Income tax returns (FS5s) as well as National Insurance Contributions and tax payments not sent to the Commissioner of the Inland Revenue within the required one-month time frame.

b. Documentation such as FS3s and FS7 not correctly filled in.

c. Employment income for employees working on reduced hours erroneously declared under part-time in the FS5.

d. Discrepancy between amounts declared in statutory forms submitted to IRD and the actual emoluments paid/posted in the Nominal Ledger.

e. Annual FS7 form not reconciled to the monthly returns.

f. No signed contract of employment in line with employees' present conditions of work.

g. FSS deducted on a yearly basis wrongly calculated.

h. No payslips drawn up for Council employees or not prepared in the appropriate format.

i. Performance bonuses paid before their approval during Council meetings and/or without the approval of the Director for Local Government.

j. In connection with the number of changes effected to the Mayor's honoraria during 2010, the Council has not recognised a prepayment following an increase in the salary of Members of Parliament and the subsequent official reversal thereof.

k. The FSS forms used by the Local Council still in Maltese Lira currency.

l. Even though Councillors' allowance is to be paid in proportion to the number of meetings held in a calendar year, the latter were paid in full though review of the minutes did not identify a letter of excuse, or indicator of circumstances, to support their absences.

m. The Council reimbursed a monthly rate to certain employees of the Council for the use of their personal vehicles for work related to the Council, with no proper claim form being prepared.

n. Allowance paid to Mayor was over/under stated than that stipulated in Memo 107/2010 issued by DLG.

Receivables

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

b. Problems in collecting fines adjudicated in the Council's favour by the Local Enforcement Tribunal.

c. The Council did not properly account for amounts due from WSC, even though an agreement was reached and the balance due was confirmed.

d. The amount still receivable under a particular scheme was not accounted for, even though the approved project was completed in 2010.

e. Grants receivable for projects not yet completed by year-end were recorded in the amounts due from Government against income, rather than as deferred income.

f. Discrepancies between actual amounts owed from third parties as per confirmations obtained by LGAs, and balances as per receivables list provided by the Council.

g. Cash in hand not yet deposited by year end, accounted for as 'Receivables of the Council'.

h. The Council accounted for certain amounts receivable when these were either already received or had to be fully provided for since their collection was doubtful.

i. No detailed breakdown available of amounts due from other Local Councils.

j. Assets under construction accounted for as receivables.

Payables

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

b. Suppliers overpaid.

c. Balances recognised in the payables' listing different from the respective statements sent by the suppliers, with the Council not carrying out regular reconciliations with supplier statements and amounts due to them.

d. Amounts recognised as payables rather than accruals at year-end, even though the invoice was not yet received.

e. Invoices issued or received in 2011 for services rendered in 2010 not accounted for, resulting in unrecorded liabilities.

f. Included with the list of payables at year-end were fees entered twice in the system and amounts in dispute brought forward from prior years.

g. A number of payables had debit balances which were not reclassified.

h. Accrued amounts based solely on architect's estimates and not supported by relevant documentation.

i. Individual payments listed in the respective schedule not referenced to the cheque numbers covering the payment.

j. The Council advanced a payment to a supplier before certifying that the work was actually carried out.

k. Amounts received from other Local Councils were grouped and included as a lump figure in the Nominal Ledger as 'Unidentified Deposits', and could not be confirmed or checked.

Cash and Cash Equivalents

a. Petty cash float kept at the Council's premises higher than the established limit.

b. Petty cash expenditure not signed by the Executive Secretary to indicate authorisation and approval.

c. Discrepancies identified between amounts as per physical cash count and amounts as per accounting records since no regular reconciliations were carried out.

d. Bank reconciliations not prepared on a regular basis.

e. Unreconciled discrepancies in the bank reconciliation.

f. Bank reconciliations prepared on 30 December rather than the day after, with last day's movements not recorded.

g. Cheque amounts included in the bank reconciliation statement do not agree with the actual amount of the cheque presented to the supplier.

h. The Local Council issued cheques before they were approved in Council meetings.

i. Cheques included in the bank reconciliation shown as cancelled, but not reversed in the accounting system.

j. Written cheques not issued immediately but are retained for a period of time until the Council has the adequate financing.

k. Dates on the cheque's counterfoil do not agree with the register where cheques issued are recorded.

l. Stale cheques not written off or investigated.

m. Bank accounts completely omitted from the Council's Trial Balance.

n. Bank accounts dormant for long periods of time.

o. The Local Council did not keep a copy of cheques issued before they were sent to suppliers, making it difficult to trace back when queries with suppliers arose.

p. Cheques approved during Council meetings in 2011 were dated and posted during the preceding year.

q. Cheques issued to suppliers during 2010 not accounted for, thus bank and payables figures were both overstated.

r. Cheques issued in 2011 included in the bank reconciliation as at end 2010.

s. Bank account administered by the LES Joint Committee showing the Council as its administrator.

Invoices

a. The Council only accounted for invoices in the accounting software once these were approved for payment.

b. Invoices accounted for twice.

c. Invoices adjusted manually.

d. Invoices dating back to prior years, accounted for during the current year.

e. Invoices in dispute with the supplier not booked.

f. Except for permits, the Local Council did not issue receipts in respect of daily income.

g. Payments not supported by a proper fiscal receipt, showing the VAT registration number of the company supplying the goods or providing the service.

h. Payments / Expenses only supported by cash-till chits rather than proper supplier invoices addressed to the Council.

i. Invoices issued to customers from Word processing rather than through the invoicing tool embedded in the 'Sage' Accounting Software.

j. Separate receipt books kept by the Executive Secretary and Council clerks concurrently.

k. Suppliers sending invoices which lack necessary details such as date and invoice number.

l. Invoices failing to indicate the date when the work was undertaken, thus making it impossible to ensure that the invoice has been accounted for in the correct period.

m. Request for payment provided instead of a fiscal receipt.

n. Expenditure not supported by adequate documentation.

o. Different petty cash expenditure from same supplier, in aggregate exceeding the established limit.

p. Invoices issued to WSC in respect of reinstatement works for 2009 not found.

Non-compliance with certain Provisions outlined in the Subsidiary Legislation

a. Though not sending a valid written justification for not attending the Council's meeting, Councillors were still listed as excused in the minutes and thus received the full allowance.

b. Council meetings not held at least once a month or every five consecutive weeks.

c. Council meetings lasted longer than the three hours stipulated by Memo 68/2009 issued by DLG.

d. Minutes of the Council's meetings not bound on a yearly basis.

e. Quarterly Financial Report and the Financial Indicator Report not approved on time during Council's meetings.

f. Capital commitments and guarantees in favour of third parties not disclosed in the Financial Statements.

g. Council's budget for 2011 not reflecting the capital commitments disclosed in the Financial Statements.

h. Notwithstanding a positive FSI, certain LES Receivables might prove difficult to collect in full within the current year. In such cases, the going concern assumption used in the preparation of the Financial Statements may be dependent on further sources of funds other than the annual financial allocation by Central Government.

i. Although not permissible, 23 Local Councils advanced donations, in cash or in kind, to various entities.

j. Bye-Law not in place to allow for the carrying of an income earning activity.

k. Local Council made use of internet banking facility, which was not limited to 'view only' purposes.

l. Not all of the schedule of payments and minutes of Council meetings were uploaded on the electronic site of the Local Council.

m. Payments not separately included in the schedule of payments.

n. Payments made were not all included in the schedule of payments and hence not approved in the Council's meetings.

o. Contingencies in 2009 became amounts receivable in 2010 but were not recognised as such in the Financial Statements.

p. Various documents and items pertaining to the Council are being taken out of the Council's offices in order for the accountant to undertake the necessary work.

q. The Council entered into commercial partnership without obtaining the Ministry's or DLG's approval.

r. Budgeted expenses exceeded.

s. The Council did not submit to DLG a report in respect of twinning projects undertaken during the year.

Other Particular Concerns

As part of the audit methodology, LGAs went through the prior year Management Letter points to identify whether the shortcomings highlighted in the preceding period were addressed or not. It resulted that a number of the mentioned weaknesses 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 hereafter together with the Council's comments, if any, relative to each.

Attard

Three payments, for a total of €25,639, were made to a supplier for the organisation of *Lejl Għat-tard*, held in September 2010. These funds were redistributed by the organiser to pay the various entertainers that were hired for the activity. In line with instructions stipulated in Memo 122/2010, the global expense for the Council activity should not have exceeded the higher of €3,500 or 0.5% of the financial allocation, in this case amounting to €2,655. Despite that the Council obtained sponsorships of €2,800, the total expense exceeded the limit by €19,339.

An amount of €50,531 receivable from WSC, as well as expenses totalling to €10,661, were accounted for twice in the Local Council's books. However, these were corrected following the proposed audit adjustment.

Tracksuits and trophies procured for €1,290 and €800 respectively, as well as eight books from the Council's inventory, costing €16 in total, were donated to two different clubs and for a school Prize Day.

The Council did not submit a reply to the Management Letter.

Balzan

The Council's aged supplier analysis included €21,543 long overdue balances which were carried forward from prior years. Of this figure, €12,459 relating to four suppliers were in dispute. The list also included €5,590 owed to a particular company and €2,329 due to a creditor in the name of 'Court fees'. The Council was recommended to review these amounts and decide whether to settle or write them off.

The €5,590 owed to the supplier are subject to a warrant of seizure in favour of another limited liability company, dated December 2007, thus these amounts cannot be written off.

A local band club received €150 from the Council's funds for providing Scouts services during Palm Sunday. This payment was in the form of a donation.

The Council and the band club organised the event together as part of the promotion of cultural activities. The Local Council is aware that it cannot give donations but this was a joint activity with a local band club and not a donation.

A call for tenders in respect of street cleaning services was issued by the Council. From the five offers submitted, the tender was adjudicated in favour of the most expensive bidder on the basis of being the only one that offered mechanised street cleaning. This gave rise to a certain amount of dispute within the Council since it was claimed that the winning bidder had no significant experience on this work, mechanised sweeping is not practical for narrow pavements, and also because it was the most expensive.

The Council would like to note that the risk involved in choosing an inexperienced contractor has proven to be worthwhile because the service has improved and the Council no longer receives complaints that the streets are dirty.

A contract, which was drawn up in 2009 but still not signed by time of audit, is in place with *Kooperativa Tabelli u Sinjali* (Koptasin) for the provision of road markings and signs, including material and labour. However, to cut down costs, the Council instructed the former to supply only the paint, whilst the labour for road markings was to be performed by its' employees. Apart from not adhering to the terms of the agreement, no call for quotations was made with respect to the supply of road paints which falls outside the scope of the contract with Koptasin.

The Council decided to allocate the contract to Koptasin on condition that the former utilize its workers to perform the work, whilst the paint and signs are purchased from the latter. An agreement was reached with Koptasin regarding the cost of paint and signs.

Capital commitments estimates disclosed in the Council's budget are €41,538 higher than that reported in the Financial Statements, which stood at €45,907.

In drawing up its budget, the Council had put an amount aside to be able to carry out some major works. However, it had not as yet identified what these works would be and so it was inappropriate to state in the Financial Statements that such works were authorised.

A difference of €19,503 was identified between depreciation charge as disclosed in the Financial Statements and LGA's recalculation.

Point noted by the Council.

Birgu

Accrued income amounting to €22,950, comprising €7,500 relating to a Festival of the Maltese Traditional Games, €12,050 relating to amounts receivable from WSC and €3,400 relating to donations receivable for the 2010 Birgufest was omitted from the Financial Statements. The Council amended its Financial Statements through an audit adjustment.

The amount of €8,537 paid to a contractor in respect of tarmac supplied to the Council was not covered by a tender. Though the same company was awarded the tender for the Upkeep and Maintenance of Access Only and Pedestrian Streets, the expense in question was not included in this tender.

A project undertaken by the Council during the past years, for the construction of a garden at *'Tal-Ħawli'*, and on which the amount of €291,895 was spent by the end of the year, has been capitalised, notwithstanding that it is estimated to be completed in the coming years. Furthermore, grants received in relation to this project, have been allocated in their entirety against the cost of the asset.

It is understood that the Council is experiencing difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. A provision for doubtful debts amounting to €65,019 was recognized, covering part of the outstanding fines pending from the period 1 January 2000 to 31 December 2008.

From an analysis of the Payables as at 31 December 2010, it transpired that the Council is still taking long to settle its amounts due in view of the bad financial situation that it is in. In fact, Payables have increased from €178,887 to €212,602, a rise of 18.85%.

The Council included the amount of €23,975 in its Financial Statements as Capital Commitments for the year. However, the amount in the Council's budget amounted to €82,670.

The Council did not submit a reply to the Management Letter.

Birkirkara

Budgeted amounts for Capital Expenditure and Operations and Maintenance were exceeded by €377,587 and €465,938 respectively.

For the year ended 31 December 2010, the Council was forecasting a balanced budget. 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. While it should be ensured that the Council continuously monitors and compares the actual with the budgeted income and expenditure, LGA's recommendation is taken on board and during the current financial year, funds within the budget would be reallocated and adjusted to reflect shifts emanating from decreases or increases in budgeted income or expenditure on a quarterly basis.

LES Receivables included a balance of €11,392 representing pending contraventions, issued before the Council formed part of the Joint Committee. This was provided for, in full, in the current year. However, the respective reports indicated that the value of contraventions pending payment from pre-pooling was €67,038. This must also be provided for in full.

This issue has been the fruit of a decision taken by the Birkirkara Joint Committee that all pre-pooling dues to the member Councils are paid irrespective of whether they were bad or not. As a matter of fact, the Authorised Officer of the Joint Committee had confirmed that the amounts receivable by the Council were €11,392 and not €67,038. Nonetheless, the Council's administration has decided to take on board the LGA's recommendation and adjusted the Financial Statements in line with the reports extracted from the system.

The Council is still reporting a balance of €130,445 as receivable from a contractor, which amount has been pending for several years. The former entered into a written agreement on 18 March 2007, whereby upon the upgrade of the public garden (ex-Railway Station), instead of back yards, the latter will be given the right to finish a new façade overlooking the garden with terraces, as approved by the Council's architect. The consideration price for this servitude was set at €58 per linear meter as an annual and perpetual ground rent. However, the contractor has contributed a one-off sum of €1,863 per linear meter to the Council for the initial refurbishment of the public garden. LGA was informed that the required building permits were obtained from MEPA in June 2011 and that this amount is still receivable in full.

The Land Department are making their final preparations to devolve the gardens in question to the Local Council, at which point the mentioned sum of €130,445 is expected to flow into the coffers of the Council. Unfortunately this process was a lengthy one but finally the Council will now be reaping the fruits of waiting.

Upon reconciling amounts payable as disclosed in the Financial Statements with the respective suppliers' statements, large differences were encountered by LGA. Noted discrepancies, which were not adjusted for in the Council's books, totalled €114,558. Out of this amount, the balance of €97,069 in dispute with a particular supplier was disclosed as a Contingent Liability, which may imply that it is not probable that the Council would have to settle any part of this obligation. In addition to this, another instance was encountered whereby an invoice of €20,732 payable to WSC was omitted from the books of accounts. However, this was then adjusted for accordingly.

The Council regularly reconciles its suppliers with statements provided but where amounts are in dispute, these are not recognised in the Council's accounting records but are usually highlighted in Contingent Liabilities note. At times, it would not be always possible to obtain statements from suppliers due to their disorganised accounting systems. However the Council takes note of the auditors' recommendations and will insist with its suppliers to provide regular statements, at least on a quarterly basis.

A proper inventory system over stock held has still not been introduced by the Council. While at year end the stock value was €2,704 lower than that reported in the prior period, only €3 was recognised as income from the sale of stock items, during the period under review. This indicates that stock items may have been given free of charge or stock was erroneously calculated.

It is felt that an appropriate inventory system is kept by the Council, whereby it issues an official receipt for books and merchandise sold. Additionally, a record of books and other items given on complimentary basis during official visits or similar situations is maintained. Nonetheless, the Council is noting the auditors' comments and will check whether the system could be improved further in line with their recommendations. A further measure which would be taken is that the physical counting of inventory would be supervised either by the Deputy Executive Secretary or by the accountant in charge.

Contrary to that stipulated in Memo 109/2010, whereby all Councils were to terminate all fixed contracts on mobile phones at the latter's expense as from 1 January 2010, during the year under review two mobile phones with a fixed contract were still being used by the Council. These were being utilized by workers from Industrial Projects and Services Limited (IPSL), seconded with the Council, in the performance of their duties.

These mobile phones are being used by IPSL workers in the performance of their duties, and no bills are being paid since internal Council calls were negotiated free of charge. No external calls are allowed to be undertaken from the Council's mobile phone and therefore the Council sees no breach of procedures in this case.

Upon reviewing the Statement of Cash Flows prepared by the Council, LGA noted that the total grants received were overstated by €55,483. These grants were not yet received by the end of the reporting period. In line with LGA recommendation, the Council corrected this error.

No remarks received.

Birżebbuġa

As at 31 December 2010, a material difference of €449,461 resulted between the FAR and the accounting records, with the latter amounting to a lesser amount. This difference increased substantially from that as at 31 December 2009, which amounted to €265,304 as mentioned in the prior year's Management Letter.

In the prior year, LGA suggested that the Local Council reconciles the FAR with the Nominal Ledger and performs a physical count of all assets to ensure that the FAR is updated. During 2010, the Council issued an open call for quotations for qualified persons to perform this exercise, however even though a competent person was chosen and the exercise was performed, there are still differences as stated in the Management Letter. The Local Council will not pay the contractor for the work performed as the job was not done correctly. During 2011, the Council will perform again this exercise to ensure that these differences are identified and corrected.

A difference of €36,827 was identified upon reconciliation between LES when compared to the Financial Statements. This resulted from contraventions paid at other Councils and which were not yet deposited in the Council's bank account. The said amount was not recognised by the Council, thus a proposed audit adjustment was taken on board.

Point noted and the Council will follow this procedure.

The Council does not recognise in its books of accounts under LES Payables those contraventions paid at the Council, where the place of incident is not Birżebbuġa, and which have not been deposited in the respective Local Councils' bank accounts. Failure to recognise such amounts is not giving a clear picture of the amounts owed to other Councils as at end of the reporting period. Since amounts payable could not be determined, no audit adjustments could be proposed.

The amount that was not recognised is very small and hence insignificant.

A bank account with a balance of €17,140 was not included in the Council's books of accounts. Once informed by LGA, the Council took the necessary steps to recognise this bank balance in its Financial Statements accordingly.

Point has been noted.

An unreconciled difference of €554 was encountered between the Personnel Emoluments as per accounting records and the amounts declared in the statutory forms that are submitted to IRD.

Wages reconciliation is done on a monthly basis and as far as the Council is concerned no discrepancies were found.

The Council's Financial Statements indicate that the Council has contracted for road resurfacing to the value of €850,242, out of which €253,153 will be financed by Central Government under the Public Private Partnership agreement. The remaining balance of €597,089 will be forked out by the Council out of its annual allocation, which for 2010 totalled €614,516. However, in its Financial Statements, the Council lacked to provide explanations as to how these projects are to be financed.

This scheme was agreed between Central Government and the Council. Although the Local Council has contracted for road resurfacing costing €850,242, as the contract also states, this amount is payable over a period of 8 years and hence the works do not exceed the annual allocation.

Bormla

During last year's audit, it was noted that a refund from the Housing Construction and Maintenance Department in respect of road resurfacing works carried out, amounting to €35,599, was incorrectly recognised as income in 2009 in the Statement of Comprehensive Income. As proposed by LGA this refund is to be allocated against the cost of the asset recognised in the Financial Statements in line with IAS 20. As a matter of fact, note 14 to the Financial Statements disclosed the value of the road works carried out on account of this street as additions to Property, Plant and Equipment for the period ending 31 December 2009. Thus, a prior year adjustment in line with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors is recommended to correct this error.

The Council does not agree with the view reported by the auditors and this has already been explained to them in our reply to the Management Letter for the year ended 31 December 2009. It is again repeated that the income was a claim made by the Council for damages in the locality which the Housing Construction and Maintenance Department refunded to the former.

It is understood that the Bormla Local Council is experiencing certain difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. There are still fines pending from the period 1 January 2000 to 31 December 2008 which amount to €223,115. Rightfully, the Council has taken prudent steps in this context and is recognizing the full amount as provision for doubtful LES receivables.

Comments were already made in last year's reply. The Council cannot be held at fault for LES outstanding amounts when these should have been collected by the Licensing and Testing Department throughout the years 2000 to 2009.

Furthermore 64% of Trade Receivables amounting to €6,276 were older than one year. Unless the Council ensures that its debt collection procedures are strong enough to shorten the collection period, overdue debts would worsen the Council's liquidity position, which is already precarious with a net liability of €72,684.

The mentioned receivable amounts are being reviewed and should a final drive to collect the amounts due prove to be fruitless, these will then be written off.

Both accrued income and income are overstated by €4,800 respectively. The Council accrued for the sum of €6,000 as receivable from the WSC for road reinstatement works. However, according to documentation provided to LGA, the only amount receivable for years ending 2008 and 2009 is €800 in aggregate. Thus, assuming that accrued income for 2010 is also €400 the total accrued income should only amount to €1,200.

The Council had informed the auditors during their fieldwork that the issue with WSC was still being discussed between both parties. However, for prudence sake only €6,000 was accrued for despite that amounts claimed by the Council for the last three years amounts to €26,000. The auditors seem to be quoting values that do not feature in the Council's records for 2010. Since the Council disagree with the auditors' comments ledgers and Financial Statements were not corrected with the suggested audit adjustments.

Instances were encountered where no call for quotations was requested for procurement incurred over a period of four consecutive months, and exceeding the limit of €1,165. Such expenditure which in total amounted to €13,682 included the payments for the service of an accountant, supply of pots and plants, trees, and the payments for the library partition and other repairs.

Comments made by the auditors were noted and calls for quotations will be issued as required.

The EU is to refund 75% of the expenditure incurred by the Council in respect of Project titled E-MED IT. Based on the final certificates and claims issued, the refund still due to the Council amounts to €107,990. In order to help the council finance the project, the Ministry of Justice and Home Affairs had made a loan of €122,516 available as an advance. However, LGA could not obtain confirmation as to whether the amounts due from the EU are still recoverable and due to the Council, or whether the amount of €107,990 is going to be directly paid to the Ministry of Justice and Home Affairs.

Discussions with the Office of the Prime Minister on the matter are still underway. The Council is of the opinion that the amounts due to the then Ministry of Justice and Internal Affairs are to be settled off against the amounts receivable on the E-MED IT project since ERDF funds will be received by the Office of the Prime Minister.

Furthermore, the Council is recognising the loan in line with the provisions of IAS 20-Accounting for Government Grants and Disclosure of Government Assistance and has accounted for effective interest on the loan, which interest amounts to €7,290. In view that the available information is limited, it was difficult to verify whether the said advance falls within the criteria of IAS 20 or should be recognised and measured in accordance with IFRS 9 Financial Instruments.

The Council treated the loan under IAS 20.

It was observed that during the year under review, proper payables' reconciliations were not being performed. In fact a number of instances where the balances in the payables' list were misstated have been encountered. On two particular instances, balances due to the relevant suppliers were overstated by €3,857 and €998 respectively.

It is presumed that the auditors arrived at the amounts quoted through suppliers' circularisation letters. However, it cannot be understood why these discrepancies were not discussed with the Council during the audit fieldwork. The auditors could have copied the former with the replies for reconciliation purposes. Suppliers' statements will be requested for reconciliation purposes.

Dingli

The Council held a Christmas staff dinner on 23 December 2010. A payment of €500 was made in total, covering a total of eight persons comprising Council members and staff employed, thus giving a cost of €62.50 per head. This exceeds the threshold stipulated by Memo 122/2010 stating that a maximum of €50 per person can be paid from the Council's funds.

Observations relating to the Christmas staff activity have been noted. In the future, the Council shall limit its expenditure on similar activities in line with the financial procedures. In the event that the limit is exceeded, a reimbursement from the participants will be requested.

Unauthorised donations consisting of gifts for social events of €163 and €392, as well as the payment in respect of a seminar for €160, were made during the year.

LGAs' observations with regards to donations are not correct as the payments mentioned relate to expenses incurred in the course of activities organised. The Council shall continue following the regulations relating to donations and refrain from giving out direct donations.

Commitments for capital expenditure amounting to €44,731, which have been disclosed in the budget for 2011, were reflected in the Financial Statements only following the auditor's recommendation.

The Capital Commitments mentioned by the auditor have been duly included in the Financial Statements for the year ended 31 December 2010.

Fgura

Following the award of a tender for road patching works, the Council noted that the streets that should have been patched needed further extensive repairs and it was best to be resurfaced at an expense not exceeding €80,000. No new tender offer was issued in this respect, but the same contractor was assigned to carry out the work.

The shortcomings, happening under previous administration, were discussed during an urgent meeting of the Council held in November 2010. The Council approved a resolution but was penalised the sum of €49,439 by DLG which was later reduced to €19,776 after appeal.

The Council did not provide a clear explanation for the difference arising between the amount of Deferred Income released to the Statement of Comprehensive Income, which amounted to €27,487, and the workings it provided to LGA with respect to grants that had to be released, which totalled to €12,917. The audit report was qualified in this respect.

The Council disagrees with the comments put forward by LGA and their qualification regarding the release of the UIF to income. The schedule submitted to LGA clearly states the workings of €27,487 released to income. LGA could have traced the amounts to the FAR in order to verify the release. Notwithstanding the above, the whole workings have to be re-calculated during the year 2011 since the scenario has changed. The Council has received amounts 'final settlement' out of the UIF that are less than the agreed amounts. The amounts in question are €27,981 received less on Vjal Kottoner Project and €10,551 received less on Triq il-Karmnu Project. Due to this, the Council will be re-calculating the release to income, taking into consideration the final settlements and adjust the accounts accordingly.

It was noted that the total amount spent by the Council for *'Jum il-Fgura'* amounted to €5,305.

'Jum il-Fgura' activities, did not exceed the €3,500 as stipulated by Memo 122/10 correctly referred to in the audit report. This activity was amalgamated with another activity called 'Jiem Maltin'. 'Jiem Maltin' was budgeted for €10,000, with 50% of the funds awarded to the Council by DLG, while 'Jum il- Fgura' was budgeted for €3,500 as stipulated by the mentioned Memo. The total cost of both activities amounted to €12,396, therefore threshold was not exceeded by the Fgura Local Council.

The Council has undertaken an exercise to set up a FAR. However, this is not being maintained in the appropriate manner as stipulated in the Local Councils Procedures. A variance of €113,128 was still identified between NBV of the Financial Statements and FAR. Besides other variances, additions made during the year, including the amount of €19,684 capitalised for the Reconstruction of *Triq l-Iskola*, could not be traced to FAR.

The variance noted by LGA has been checked and the items that make up the variance have been identified as follows: €5,693 relate to works carried out by WSC, €19,684 related to the reconstruction of Triq l-Iskola, €80,411 relate to the construction works in GHE Phase III, €5,189 relate to garden furniture in GHE Phase III and €818 relate to furniture. The amounts were included in the Nominal Ledger at year-end and included in the FAR in January 2011 such that the depreciation would start running from 1 January 2011. The variance with regards to depreciation will be looked into during 2011 and the necessary adjustments made accordingly.

It is understood that the Fgura Local Council is experiencing certain difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. There are still fines pending from the period 1 January 2000 to 31 December 2008 and which amount to €301,674. Rightfully, the Council has taken prudent steps in this context and is recognising an amount of €315,539 as provision for doubtful LES Receivables.

The fines pending since 1 January 2000 should not even exist, since the Licensing and Testing Department should have collected the mentioned amounts over the years before issuing the licence for the following year.

A council employee was promoted to the maximum of Salary Scale 11. No internal call for application was issued prior to this appointment. Furthermore, the employee does not satisfy the basis on which the promotion was awarded, mainly because the required time period from the last promotion has not yet elapsed, and the employee does not hold the required stipulated minimum qualifications for the post. In addition, the promotion to the maximum of Scale 11 was awarded in breach of Article 9 of the Collective Agreement stipulating that any promoted employee is placed at two notches below the maximum of the new scale.

As indicated in a letter dated 23 March 2010, the Council sought guidance on the matter from DLG. However no reply was given by the latter.

The Council has a number of creditors that are long overdue, where some of the amounts payable are over five years. Certain amounts can now be considered statute-barred due to the long time that these have been pending. The Council sought legal advice and is of the opinion that such balances are not to be written off due to prudence reasons. This, however, could be creating a situation where the Council is recognizing Payables which are actually not due.

We are aware of the long outstanding payables, most of which were kept in the books until a resolution was found to the litigation with the suppliers. During the current year the Council will be writing back the balances to the Statement of Comprehensive Income during 2011 or paying the balance outstanding.

Floriana

The Council provided donations in kind to a total of €1,014, €363 of which was contributed for material for the football pitch.

The Council did not provide any service for the celebration of two priests. The issue never materialised in reality during the year under review. The expenditure of €363 cannot be considered as a donation because it is in compliance with Article 33 of the LCA which states that the Local Council shall co-operate closely with sports associations from the locality to provide good sports facilities. On the other hand, €151 was spent on a small gift provided to the elderly persons of the Government Elderly Home as a memento in the occasion of St. Publius Feast and cannot be considered as donations. The Council feels that it is one of its main functions to promote culture in its various forms.

A call for quotations was issued by the Council for the purchase of equipment for the use by the local band club. In addition, the Council also contracted the band club for a number of services for the cost of €10,094, mainly being band marches and the organisation of an Oratorio titled *San Publiju*. Two local television stations were contacted so that two masses will be transmitted for the amount of €2,752.

Point not addressed in the reply submitted by the Council.

No proper stock control system and appropriate accounting is in force in respect of inventories - comprising of books and CDs. As at year end, the Council reported that stocks held amounted to €13,397, however this is not covered by an insurance policy. Furthermore, stock of books amounting to €3,450 has been expensed under the category titled Publications when these should have been accounted for in the Statement of Financial Position under inventories.

The Council will be effecting stock takes at least on a quarterly basis since the movement of stock is limited. Movements of stocks are recorded in the publications account.

Traffic signs amounting to €3,586, incurred in relation to a new traffic management system introduced by the Council, were written off immediately to the Statement of Comprehensive Income instead of treated as Fixed Assets.

Traffic signs being repaired or exchanged due to damages incurred are expensed immediately. However, new traffic signs are shown as Fixed Assets against which a 100% depreciation is taken.

Capital Commitments totalling €298,069 have been completely omitted from the Financial Statements.

The Council had noticed that the auditors had listed the Capital Commitments mentioned in the annual estimates for year 2010. This list of projects does not reflect the Capital Commitments authorized or contracted but not yet incurred for during the year under review but it reflects the Council's plans for the following year. A project to be authorized or contracted must have a Council's decision to issue a call for tenders which is consequently awarded.

Fontana

The cost of assets in FAR is lower than that recorded in the Nominal Ledger by €37,191 due to the fact that additions for the year were not included in the former. Furthermore, total accumulated depreciation in FAR amounting to €128,099 did not tally with the total depreciation plus grants in the Nominal Ledger which amounted to €243,981. Thus NBV as reported in FAR was higher than that disclosed in the Nominal Ledger by €78,691.

The auditor recommended the Council should see into the discrepancies between the FAR and the Nominal Ledger. The recommendations made by the auditor regarding this issue will start to be implemented.

Għajnsielem

Total expenditure within the Community and Hospitality category exceeded the budgeted amount by €12,697.

This is due to the further enhancement of the Betlehem f'Għajnsielem, an activity endorsed by the Secretariat for Consumers, Fair Competition, Local Councils and Public Dialogue and the Malta Transport Authority.

Upon an agreement reached during the year under review with WSC in respect of works carried out on road re-instatements during the years 2007 to 2010, the Council issued the respective invoices totalling €12,347 in 2011. However, this was not accounted for as accrued income in the prior period. An audit adjustment was later passed to reflect this income accordingly.

The Council notes the comment listed by the auditors.

Għargħur

A variance of €2,037 was noted between the amount of payroll costs as recognised in the Financial Statements and that disclosed in the FS7.

The Council's workforce consists of only an Executive Secretary and two clerks. Whilst acknowledging the benefits of an electronic payroll software system, the Council feels that the capital outlay involved to acquire such a system is not justified when considering the number of employees involved.

On five instances out of the six tested transactions, capital expenditure in aggregate amounting to €9,997 was recorded as revenue expenditure.

Auditor's recommendation has been noted and is being implemented.

The Council made payments in the form of gifts in kind to the elderly of the locality, in total amounting to €144, and books for the local school Prize Day, amounting to €152. These payments are considered as an indirect form of donations.

It is incorrect to state that during the year under review, the Council made payments in the form of gifts in kind to the elderly. The Council purchased goods which were distributed to the elderly during social activities, which goods were financed from the fees paid to the Council by the elderly upon the purchase of the entrance ticket.

We reiterate that the value of the books donated by the Council to the Għargħur Primary School during the Prize Day Ceremony was €21 and this donation was made after approval from DLG was obtained.

During the year under review, the Local Council received a grant of €31,874 through the Private Public Partnership scheme for the resurfacing of three roads. It accrued another €42,562 representing grants receivable on account for works completed by 31 December 2010, for which no supporting calculation was provided. However, such amount is overstated by €22,619, due to the fact that only €51,817, representing 30% of €172,723 being the total amount granted in respect of these three roads, was to be received during 2010. An audit adjustment was passed in this respect.

The auditors' recommendation has been noted and is being implemented.

Għasri

Property, Plant and Equipment acquired during the year, totalling €2,471, were not included in FAR. The non up-to-date records triggered a difference between FAR and the Nominal Ledger. For example, whilst total accumulated depreciation in FAR amounted to €159,822, total depreciation including grants in the Financial Statements totalled €294,311. On the other hand, NBV of €447,681 in FAR exceeded that disclosed in the books of accounts by €129,705.

Council's employees who are now on an indefinite employment contract do not have a signed contract in line with their present conditions of work. No employment contracts were drawn up following the change from definite to indefinite contracts.

The Council exceeded budgeted expenditure for Community and Hospitality by €5,304 and Contractual Services by €18,345.

The Council did not submit a reply to the Management Letter.

Għaxaq

Review of the schedule of payments revealed a payment of €780 to a band club for Christmas decorations, besides the purchase of refreshments costing €291, consumed during a tournament, and purchase of trophies for €116 for the local football club.

The payment made to the band club was in respect of services rendered and not as a donation. The Council does not agree that this payment classifies as a donation. With respect to the purchase of refreshments and trophies, the activities during which these items were used were organised by the Council as part of its calendar of social activities.

An invoice of €30,229 relating to construction works carried out during 2010 was not accounted for in the Council's accounts. However, this was incorporated in the Council's final set of Financial Statements following auditors' recommendation.

The absence of an unrecorded invoice was an oversight. This adjustment, together with other adjustments recommended by LGA, has been posted in the Council's books of accounts.

A reimbursement of €238 was approved to the Executive Secretary to replace a car mirror since it was broken while she was running the errands of the Council. However, such an expense is not expected to be borne by the Council.

The Council shall in future follow regulations in similar circumstances.

The Council's expenditure revealed a monthly payment of almost €26 to a local internet service provider for an internet key subscription. However, the internet key was not in the Council's premises at the time of audit.

The auditor's recommendation has been implemented and the internet key is being kept on the Council's premises.

The balance of €4,016, erroneously disclosed in the Financial Statements as inventories, is eventually made up of books not held for the purpose of resale.

At times, contributions are received from residents in exchange of the books included as inventories. Thus the net realisable value may not be zero. The Council shall expense the whole inventory during the coming financial year.

A correct use of the Imprest system was noted by the LGA whilst carrying out a count of the petty cash. However, it was also noticed that the Council's till box includes both the Council's petty cash and money belonging to the Executive Secretary.

Personal monies shall in future be removed from the petty cash till.

At the end of the reporting period, the Council's future capital expenditure plan amounted to €185,000 of which €175,000 was contracted for. Erroneously, the Financial Statements indicate contracted Capital Commitments of €80,000 only.

This point was not addressed in the reply submitted by the Council.

Gudja

A disputed amount of €24,100 payable to a private limited company was included in the payables' list. The supplier took the dispute to court in prior periods. However, a court judgement had not been delivered by the time of audit.

The matter is still pending and does not appear that there is a possibility of a future liability. The Local Council is following up this matter with the lawyer.

Construction works amounting to €100,000 was contracted for through the issue of a tender, with the actual contract signed on 7 November 2010. However, erroneously, the Financial Statements indicate that such expenditure is only approved but not contracted for.

The Council agrees with the auditor's recommendation to distinguish the amount of funds that are committed to capital expenditure and those that are not in accordance with IAS 16. In this particular case the expenditure is approved and contracted. The Council has the funds to meet its Capital Commitments.

A deposit account with a closing balance of €457 held with a commercial bank was not included in the Council's Trial Balance. The Council explained that it does not administer such account which is held for the purpose of running the library.

It is agreed that this bank balance is to be properly disclosed in the Financial Statements of the Gudja Local Council.

Gżira

The Council expensed computer equipment amounting to €9,404 to Other Repairs and Upkeep, and Other Support Services. An audit adjustment was passed to capitalise this amount and recognise depreciation accordingly.

An agreement was entered into with the Football Club of the locality for the use of the football ground at a rent of €8,000 per annum for six years. The accounts incorrectly showed this as an addition to fixed assets. This error was adjusted for in the Financial Statements. Furthermore, Clause 11 of the agreement stipulates that the Council should hold insurance cover for the eventuality of injuries occurring whilst the Council uses the ground. However, when the public liability insurance was examined, it could not be ascertained if the Council was covered for this clause since the warranty is a generic one.

Whilst testing unpresented cheques in the bank reconciliation of an account held with a commercial bank, LGA noted that several cheques amounting to €39,083 were shown as issued on 15 December 2010, despite that these were actually issued after year end. An audit adjustment was passed by the Council to reclassify these amounts to payables, as suppliers had not yet actually been paid as at end of year.

Points not addressed by the Council.

A list of accrued expenses for the year ended 2010, amounting to €8,553, was provided by the Council. However, this did not agree to the books of account (€21,176) and thus a difference of €12,623 was identified. Upon further investigation it transpired that such variance was due to the fact that opening accruals were not reversed in their entirety. Adequate explanation for this discrepancy was not provided by the Council, and thus was not adjusted for in the Financial Statements.

The Council has no record of the grouping – accrued expenses, since this was entirely done by the previous accountant, who never handed the necessary *documentation. Thus this could not be forwarded during the audit process.*

Given that an appeal filed during 2010 by a bidder who was not awarded the contract for the collection of mixed household waste is still pending, the former service provider is still providing the service despite that the contract expired on 31 March 2009.

Point not addressed by the Council.

An unreconciled difference of €9,669 was noted between Personal Emoluments as per accounting records and the amounts declared in the monthly FS5 forms. Moreover, gross emoluments in the FS5s do not agree to the Payer's Annual Reconciliation Statement (FS7) by €1,517.

Provisions have been taken into consideration for the financial year 2011 in order to have proper payroll reconciliation.

The Council is still not following up on an amount of €2,189 due to it from other Councils and from the Licensing and Testing Department, in respect of unpaid contraventions. This amount has been outstanding for over three years.

As from 2002 onwards, the Council joined the Joint Committee Group H and, since then, it relied entirely on the financial decisions taken at Joint Committee level. This also refers to pre-pooling receivables. Notwithstanding such, this issue will be raised again at Joint Committee Level.

Despite that the Mayor is being given an allowance in accordance with Memo 89/2009 in order to compensate for expenses incurred in the furtherance of his duties as Council member, the latter, up to October 2010 was still being provided with a fixed mobile plan paid entirely by the Council. Amount incurred in this respect totalled to €579.

As from January 2010, the Mayor no longer made use of the mobile phone, which phone was only kept in case of emergency. However, since it was no longer used, as from October 2010, the Council decided to discontinue the service.

Since budget for 2011 was not prepared and approved, Capital Commitments disclosed in the Financial Statements amounting to €12,549 could not be verified.

In view of the latency and other accounting issues it had with its past accountant, the Council could not issue a budget for the year 2011 due to the fact that it did not have the expenditure for the year 2010 to base its 2011 projections on, within the set timeframes.

Whilst comparing the closing balance in the Financial Statements for the year ended 31 December 2009 with the opening balances as per Nominal Ledger, it was noted that several journal entries were passed through the suspense account to eliminate unreconciled amounts from previous years. For example, an adjustment of €18,115 that should have been passed against a bank account was posted in the suspense account. At year end, the suspense account held a credit balance of €16,888, which was grouped with Professional Services under Administrative and Other Expenditure in the Financial Statement.

Point not addressed by the Council.

Ħamrun

The bank reconciliation statement of a current account, included a loan payment of €7,986 and a bank transfer of €11,867. These transactions were not properly recorded in the books of account and resulted in unpresented payments and receipts of the respective amounts at year-end. These differences were resolved during the audit, however, an unreconciling difference of €253 still prevailed.

Council will be resolving the issue of three 'stale' cheques and will ensure that bank reconciliation is carried out on a regular basis.

A discrepancy of €146,000 in the balance reported for a loan account held with a commercial bank was noted through a bank reconciliation. From the testing carried out it also transpired that the Council erroneously accrued for the full value of a contract totalling €269,240, which was still in progress at year-end. Consequently, LGA recommended that both transactions passed by the Council are to be reversed. This gave rise to a decrease of €269,240 in additions to fixed assets, a decrease of €123,240 in accruals, and a decrease of €146,000 in bank loans. Eventually, it was noted that works actually completed and not invoiced during the current year totalled to €27,452.

When reconciling the accounting records to suppliers' statements at year-end, it was noted that there were differences in respect of three payables accounts. In one instance, a net adjustment of €121,070, which also had an impact on the cost of fixed assets, was proposed by LGA so as to decrease the balance payable. However, due to the fact that no explanation was provided by the Council for the other discrepancies no further adjustments were passed. In these two instances amounts disclosed in the books of accounts were overstated by €22,115 when compared to suppliers' statements.

In view of the above, additions to Fixed Assets were overstated by an aggregate amount of €390,310. The necessary audit adjustments were approved by the Council and reflected in the Financial Statements.

Action has already been taken to rectify any erroneous accrued postings.

The NBV of Fixed Assets as per Nominal Ledger was higher than that disclosed in FAR by €247,640. On the other hand, accumulated depreciation as per FAR was higher than that noted in the accounting records by €16,599. Furthermore, additions to Special Programmes of €55,186 and Grants Received of €120,842 shown in the Financial Statements were not recorded in FAR. Thus if the latter is used to calculate the depreciation expense, the resulting figure would differ from a charge calculated manually to that based on the accounting records. In fact, upon the re-calculation of depreciation charge by LGA, it was found that this was understated by €22,000.

The Council also passed an adjustment to write off fixed assets costing €81,915, with an accumulated depreciation of €44,215. The decrease in NBV was erroneously disclosed as a revaluation decrease of €37,700 in the Statement of Changes in Equity rather than assets written off in the Statement of Comprehensive Income. An adjustment was proposed by LGA and passed accordingly.

However, since a detailed list of the fixed assets written off was not provided to LGA, the latter was unable to verify the cost and the accumulated depreciation of these assets. The audit report was thus qualified in this respect.

The Council will ensure that FAR is updated and that all items are depreciated for accordingly. The Local Council will do its utmost to perform an extensive tagging exercise of fixed assets.

An increase of €87,032, in the provision for doubtful debts in respect of contraventions pending for more than two years, was not recorded as an expense, but was deducted directly from LES income, therefore decreasing such income disclosed in the Financial Report. The Financial Statements were adjusted accordingly following LGA's recommendation.

Income as per reports generated from LES totalled €338,165. However only €165,795 was accounted for, thus accounting records were understated by €172,370. An audit adjustment was proposed and passed to recognise the full amount of LES income in the accounts.

Council is eagerly awaiting reform in LES which is to include an enhanced accounting system. This will hopefully assist Council in monitoring and reconciling all contraventions due.

Income from grants is still accounted for using the capital approach. The Council's Financial Report indicates that grants received and deducted from the cost of Fixed Assets amounted to €120,842. This is the net result of journals posted by the Council in view of a grant amounting to €47,520 which in the prior period was deducted from fixed assets costs and was erroneously added back to the cost of the asset during the current period when the grant was received. Another grant of €168,362, received in the current year, was deducted from the cost of Fixed Assets also using the capital approach. The Council approved to deduct the grant of €47,520 from Fixed Assets cost and to transfer the grant of €168,362 to deferred income.

The amount of €20,645 utilised from a grant of €25,000, which was received during 2009 and initially correctly transferred to deferred income, was only released to income upon LGA's recommendation.

Council has noted these observations and will be treating grants as recommended by auditors.

The Council has been drawn into a court case by a limited private company and the possible outcome and liability has not been disclosed in the notes to the Financial Statements.

Point noted by the Council.

Whilst anticipated capital expenditure for 2011, as disclosed in the Council's budget, amounted to €886,914, that recognised in the Financial Statements totalled to €275,000.

Council has noted this observation and in the future will be reconciling Council Budget with Financial Statements.

Bank interest of €37,194 payable on a loan, obtained to finance the construction of the Council's premises and car park, was recognised immediately as an expense. The Council accepted to capitalise such loan interest and passed the necessary adjustment in the Financial Statements in link with LGA's recommendation.

The Council will be taking the necessary action to capitalise all borrowing costs attributed to the acquisition, construction or production of qualifying assets.

Iklin

Differences in cost of assets totalling €23,682 were encountered between FAR and the Nominal Ledger. This variance resulted from the fact that additions were not reflected in FAR.

Tests carried out by LGA on depreciation highlighted a difference of €7,157 from that presented in the original Financial Statements. Contrary to pertinent procedures, the Council has calculated depreciation manually and on a full year's basis rather than on a monthly basis.

The Council qualified for a grant of €40,205 relating to the embellishment of a street. The capital approach was adopted for the accounting of such grants by crediting a grant reserve account with the full amount. An adjustment of €40,205 was proposed by LGA and passed to recognise deferred income under the income approach. The portion of the grant amounting to €1,187 that is directly attributable to the depreciation charge was transferred to the Statement of Comprehensive Income.

The accountant shall be asked to review the points mentioned above and comply with the auditors' recommendation.

Anticipated capital expenditure does not correspond to the disclosures provided in the Financial Statements. Whilst the budget shows future Capital Expenditure of €67,007, the Financial Statements disclose an amount of €113,956.

The Council's accountant together with the Executive Secretary shall go through the capital expenditure budgeted for 2011 and reconcile with the Financial Statements accordingly.

Donations were made to the public school for the purchase of books amounting to €100 for Prize Day, and two trophies costing €139 for the presentation night of a football nursery.

Point not addressed by the Council.

An unreconciled discrepancy of €487 was noted between the Personnel Emoluments as per accounting records and the amounts declared in the statutory forms that are submitted to IRD.

This discrepancy will be investigated and any required adjustments will be made.

A number of accounting errors were identified, comprising an overstatement of €365 recorded in the books of accounts relating to rent contracts. Furthermore, the amount of a particular cheque was wrongly entered in the bank reconciliation, reported as €39 instead of €169 and an invoice amounting to €295 was entered twice in the books of accounts.

Note was taken to rectify the error relating to rent. Bank reconciliations are invariably performed on a monthly basis by the accountant, thus the error in the amount in cheque 6232 would have been detected when the January 2011 reconciliation would have been performed. The double posting of the invoice is regretted. The adjustment shall be made in 2011 as recommended by the auditor.

Isla

Expenditure of a capital nature was recorded as recurrent expenditure. On the other hand, Architect fees of €4,063 in respect of assets under construction were written off immediately to the Statement of Comprehensive Income as professional fees.

The Local Council recognised income of €380 from the hire and use of a 5-a-side synthetic football ground. However, the Council is not receiving an audited financial report of the administration and management of this ground as required in terms of the agreement signed between the two parties.

The Council is fully under control of the operations and financial aspects of the football ground. As regards operation, an Executive Board made up of 3 Local Council members and 2 members from the nursery is formed up with the role of controlling such operation. As regards finances, weekly reconciliations are carried out between the Council and the ground manager. Also, monthly accounts are prepared by the Local Council, these being approved by both the Council and the Executive Board. Finally, yearly Financial Statements are prepared for the Council and board approval.

During 2009, two suppliers were overpaid the amounts of €4,875 and €657 respectively. Except for a decrease of €572 in one of the suppliers' accounts, no other movements were registered, implying that the overpayments have not been recouped.

Both suppliers are in agreement with such overpayments whereby refunds will be effected during 2011.

Kalkara

LES income as disclosed in the Financial Statements is overstated by €7,914 when compared to the relavant reports extracted from the LES system.

It is to be noted that such delegation of power is being transferred from 1 September 2011 to Regional Committees where all contraventions both income and expenditure will fall under their responsibility.

The Council paid €627 for a Christmas Staff Party for Councillors and staff.

The amount stated in OPM Circular No 122/2010 BS 08/2011 was not exceeded. The Council will continue to be in line with the mentioned circular in the future.

The amounts of €50 and €120 incurred for the procurement of T-shirts for Puttinu Cares and trophies for a football activity respectively have been financed from the Council's funds.

Both activities were co-organised between the Local Council and the respective organizations. However, note of LGA recommendation was taken.

The cost of assets in FAR is understated by €58,037 when compared to that disclosed in the Nominal Ledger. Likewise, depreciation is also understated by €99,571, thus resulting in an overstated NBV of €41,534.

Once the FAR will be updated, it will be reconciled to the Nominal Ledger, as this is one of the main purposes to have an updated FAR.

The Council did not account for the Water Services Reinstatement Contributions amounting to €7,702, on account of re-imbursements from WSC for the periods 2008 and 2009. As a result the Statement of Comprehensive Income and accrued income in the Statement of Financial Position were both understated by the foregoing amount. Following proposed audit adjustments by LGA, the Council included the above amounts in its Financial Statements. However, for some reason the Council, in the notes to the Financial Statements, is still including a note that WSC reinstatements receivable for 2008 and 2009 have not been agreed upon as at year end and hence have not been accounted for, which is not the case.

A grant amounting to €10,000 in relation to road resurfacing works prior to the Papal visit was not accured for. Consequently both the Statement of Comprehensive Income, as well as the Statement of Financial Postion, have been understated by €10,000. This was rectified, following adjustments proposed by LGA.

All accrued income will be identified by the Council so that the amount will be reflected in the Financial Statements.

Works, including construction works carried out at Marina Street, totalling €31,549 were not always certified by a contracts manager or a professional architect.

The works mentioned were correctly certified by the Council's architect. Documentation was not provided since it was not asked for. The Council will continue to follow LGA's instructions on this matter.

Upon reconciling the aged payables' list with the payables' control account, a variance of €9,998 was noted. The payables' list was adjusted manually to rectify the situation.

The difference was adjusted in Sage Line 50 in the financial year ending 31 December 2010.

Kerċem

A variance of €47,938 was encountered between the cost of Property, Plant and Equipment as reported in the Financial Statements and FAR. Likewise, total accumulated depreciation disclosed in FAR was less than that reported in the Financial Statements by €35,519. Furthermore, amounts included in FAR do not cast.

The FAR contains a number of audit adjustments without a reference to any particular asset. LGA was informed that these relate to prior years' audit adjustments. The way the entries were made is defeating the whole objective of maintaining a FAR in the first place as these 'Adjustments' are just a balancing figure and might be representing a number of assets in just one line.

Accrued loan interest of €8,934, which should have been capitalised rather than expensed, was adjusted for following LGA's recommendation.

FAR will be reconstructed during the coming year so that the fixed asset and depreciation will be reconciled with the Nominal Ledger.

The total amount of €11,250 receivable from WSC for the period 2008 to 2010 was not accounted for as accrued income, following the agreement signed between LCA and the Corporation in May 2010. Furthermore, while testing receipts after year-end, it was revealed that receipts amounting in total to €1,981, related to 2010 income and were also not accrued for.

The income from WSC for previous years was not accounted for since during the audit for the period ended 31 December 2009 the auditors had not agreed with accruing for such income since there was no valid signed agreement with WSC. The Council therefore accounted for this income by way of a note to the Financial Statements based on the auditors' recommendation in Decmber 2009. The accruals concept is always followed by the Council unless otherwise recommened by the LGA.

Likewise, accrued expenses totalling €11,443 were not booked. However, these have been adjusted for accordingly during the audit.

Points made by the auditors were noted and the accruals at year end were adjusted accordingly.

The total gross emoluments declared in the FS5 forms do not agree with the amount shown in the FS7 by €3,781. Furthermore, amounts disclosed in the latter do not agree to that recognised in the Nominal Ledger by €3,215.

Approval of vacation leave is given verbally without being documented for future reference.

The points raised by the auditors have been noted and action had already been taken in most areas from the begining of 2011 in order to avoid a similar situation during the current year.

Kirkop

Additions to construction in the Nominal Ledger amounted to €129,496, while additions in the Financial Statements for the same category amounted to €117,743. Furthermore, when recalculating the depreciation charge for reasonableness, LGA found that the charge was understated by €9,685.

Despite that the Councillors and Mayor were being granted an allowance of €1,200 and €1,600 respectively, top-up cards were bought for the Councils mobile phone until August 2010.

A total payment of €5,000 was made to an organisation on behalf of the five Councillors in January 2011 as membership fee.

An amount of €7,779 featuring in the Financial Statements as receivable from a contractor, was brought forward from prior years, but it could not be ascertained to what this amount relates.

A considerable unidentified difference of €19,037 resulted between the actual amounts paid to creditors after year-end, and the amounts recorded as payable in the Nominal Ledger as at the date of the Statement of Financial Position. This was due to the fact that some invoices were not recorded. In one instance, the discrepancy totalled to €13,774.

An unreconciled discrepancy of €2,634 was noted between the Personal Emoluments, as stated in the accounting records, and the amounts declared in the statutory forms that are submitted to IRD. Moreover total monthly FS5 forms do not agree with the Payers' Annual Reconciliation Statement (FS7) by €2,954.

Anticipated capital expenditure as disclosed in the Financial Statements is higher than that reported in the Council's budget by €93,430.

All Councillors have been given the full allowance despite the fact that some failed to attend all meetings, with one Councillor failing to attend in aggregate more than one-third of the meetings called within a period of six months.

The Council's Financial Statements do not disclose a case against the Planning Authority Appeals Board, regarding the proposed application filed by a private company for the extension of its plant, at the locality's outskirts.

The Council did not submit a reply to the Management Letter.

Lija

The total depreciation charge for the year was found to be understated by €36,222. This variance was partly due to an adjustment of €27,641 passed by the Council so as to agree the Financial Statements to FAR, thus reducing depreciation for the year from €29,225 to €1,584, while revaluating upwards the Council's assets. However, the Council approved to correct depreciation rates both in FAR and the Nominal Ledger and hence this adjustment was reversed.

Although the Council acknowledges that there are discrepancies between FAR and the Nominal Ledger, this has arisen due to adjustments that the previous LGA had proposed and the Council complied with. Due to the nature of FAR software in use, these adjustments could not be reflected in the register as there is no way to adjust these balances short of closing, and reopening the actual fixed asset record, but then losing the coding and the history.

Contracts for cleaning and attendance of public conveniences, collection of bulky refuse as well as street sweeping and cleaning, which were entered into during 1994, have been extended and were still in operation at the time of audit.

Tendering process has been initiated for the works mentioned above and will be awarded by July 2011. Council managed to maintain this contract with Cleansing Department which was highly efficient and cost effective to the benefit of the Council.

At year-end, Current Liabilities exceeded Current Assets by €8,509. Notwithstanding this, for the coming year the Council also has Capital Commitments amounting to €112,625 for water culverts and road resurfacing.

The Council is aware of the situation. However, it should be noted that had this not been the case, the Council would not have been able to undertake the road works projects it is currently doing. In order to account for the whole assets, the Council has provided for an accrual for the uninvoiced portion, but out of prudence has not taken into consideration future receipts from Government, which receipts are due in different years as per the contract entered into for the completion of the said road works. If these were to be accounted for, the FSI would be the other way round.

The schedule of payments comprised a number of donations made by the Council. A total of €352 was shared between two philantropic organisations, and €350 assigned to a religious society. When LGA pointed these out, the cheques were retrieved and cancelled.

The Council took immediate action in order to retrieve and cancel all cheques possible.

Luqa

The fact that additions were not reflected in FAR, together with the application of incorrect depreciation rates, gave rise to discrepancies between the reported cost and accumulated depreciation in the books of accounts and the register. Cost and accumulated depreciation in the Nominal Ledger are higher than those disclosed in FAR by €163,945 and €397,910 respectively.

Furthermore, since depreciation in the Financial Statements was calculated manually on an annual basis, rather than a monthly basis, a difference of €11,126 between the Council's depreciation charge and LGA's workings was encountered.

FAR will be looked into and the necessary adjustments made to reconcile FAR to the Nominal Ledger during the current financial year. This discrepancy has been brought forward from previous year and will need to be rectified.

The position with a payable having a balance of €21,981 which has been pending for more than six years, has not been resolved. The Council will not pay until the supplier fixes the bad work performed on roads.

The balance owing to the creditor is an amount that is long outstanding for works that were not carried out according to the specifications in the contract. The Council is currently trying to find a way to settle the dispute. This amount will not be paid until the works relating to that invoice are carried out properly or a viable solution is agreed to with the contractor.

An audit adjustment was passed to recognise an increase of €49,050 in the provision for doubtful LES Receivables, as at 31 December 2010.

The recommendations made by the auditors have been noted. The Council has already sent letters to those having pending fines giving them an ultimatum for payment. This is being done in an effort to collect as many debts as possible still pending for payment under the LES.

The Council approved expenses amounting to €7,945 in connection with Luqa day. Payments amounting to €326 relating to a Christmas lunch and drinks were also traced. Together these payments amount to €8,245 which is higher than €3,500.

The Council received funds from Central Government specifically to organise Luqa day. The Council is well aware of what LGA has stated in this note, however, even the grant received from Government exceeded the 0.5% mentioned by LGA. The Council spent less than €25 per head. This was in conformity with the Legal Notice.

Bank statements for two of the bank accounts, which as per Council's records in aggregate amounting to €3,027, were not available. LGA, through the Local Council, sought confirmation of such balances from the bank. However, since the Executive Secretary's signature differed from the sample signature filed by the bank, the latter could not provide the requested statements.

The Council will take the necessary action to rectify the situation with its bank in order to receive statements and update the accounting records accordingly, thus enabling the preparation of bank reconciliation statements.

A particular receipt book (receipt numbers 3451-3500) was missing.

The administration would do its utmost to be in line with procedures.

An appeal was filed by one of the bidders who had submitted his bid in respect of the refuse collection tender, which was awarded to the contractor who was providing the service in previous year.

This issue was not addressed in the Council's reply to the Management Letter.

The Council paid membership fees amounting to €7,000, on behalf of its Councillors, to an organisation whose manager is related to a member of the Council. The motion to approve this membership was made by two of the Council's members themselves. However, the minutes of the meeting did not give evidence of any disclosure by the Council member of his direct relationship with the organisation's manager, and did not indicate that the Council member abstained from voting.

The amount paid to the organisation is a subscription fee that has been paid by other Councils supporting the development of the South of Malta through EU funding. The point made by LGA about the fact that the manager of this organisation is a Council member relative is redundant.

An adjustment of €5,486 was passed to capitalise engineering services expenses which mostly consist of architect fees in relation to street projects.

The recommendation made by the auditors, have been noted.

Notwithstanding LGA's remark during the Mid-term audit, the latter was once again not provided with the rental contract relating to the Council's office since it could not be found. In addition, the respective payment could not be traced to an invoice/receipt issued by the lessor.

The Council office is a Government property that is shared with the Government pharmacy/health office. The rent agreement was missing and on our part we contacted the Land Department for a copy.

Anticipated capital expenditure does not correspond to the disclosures provided in the Financial Statements. The amount disclosed in the books of accounts is understated by €97,987

This point was not addressed in the reply submitted by the Council.

Marsa

An amount of €8,654 spent on the restoration of statues in the locality, was erroneously recorded as capital expenditure. Financial Statements were adjusted accordingly through an audit adjustment.

The observation made with regards to restoration of statues in the locality whether it is classified as a capital or revenue expenditure, all depends on one's interpretation. Nonetheless on auditor's recommendation the Council adjusted the classification of this service.

A capital project of approximately €500,000 with respect to the construction of the new Council offices was committed for 2011 and was included in the budget. The amount was however understated by €282,000 in the Notes to the accounts. On the other hand, the amount of €68,724 included in the Notes to the Financial Statements, in respect of street paving and embellishment of monuments and public gardens, was completely omitted in the budget for 2011. Following auditors' recommendations, Financial Statements were adjusted accordingly.

The Council did not submit its comments to this point mentioned in the Management Letter.

Marsascala

The Council was not updating FAR, resulting in an overstated NBV of €958,954. Depreciation charge of €152,656, reported during the year under review has not been calculated and posted through FAR in Sage Pastel Evolution.

Money and time was invested in re-building FAR. However, since the re-building of FAR started late in the year, it was planned to include the assets capitalised during 2010 before uploading onto Evolution. Since the data was uploaded early in 2011, IT consultant informed us, that the depreciation provision would not appear when the report would be printed using the actual cut-off date of 31 December 2010, and thus in respect of accumulated depreciation, one had to print the report as 31 January 2011 and read the 'Prior Years' depreciation column. Upon the printing of this report, total depreciation for previous years column reads €959,669, hence qualification does not hold.

The necessary adjustments were not passed in the Financial Statements to write off the assets amounting to €14,823 that are clearly no longer in use, even though this was pointed out by LGA during the audit visit. FAR was not updated either in this respect.

Any items that need to be disposed of were not taken into account up to 31 December 2010. It is planned that during the year ending 31 December 2011 all assets that need to be disposed off will be properly accounted for in the Nominal Ledger as well as written off from FAR.

Water Service Reinstatement Contributions for the years 2008 till 2010 were not accounted for, despite that an agreement for such payment was reached between LCA and the Corporation. Following LGA's observation, the Council accounted for €26,050 and €43,750 for 2009 and 2010 respectively. However, the amount due for 2008 was debited and credited against two income accounts, thus netting off each other resulting in accrued income not accounted for in the Statement of Financial Position. As a result, both Income and Accrued Income ended up understated by €38,200.

The accrued income, at note 13 in the Financial Statements, includes the income receivable from WSC. The total is reflected in the Statement of Financial Position. Further information is required in order to be able to investigate the matter further.

The amount of €4,123 was paid to the Council's accountant for building FAR, even though this did not fall within the scope of his existing contract. No quotations were sought in this respect. Furthermore, following a one-off request raised by the accountant, for a further increase of 10% to the yearly accountancy fees paid, amounting to €6,835, the Council approved an increase of 5% resulting in an additional payment of €342. This was paid without first ensuring that the accountancy work was performed in a satisfactory manner.

DLG had sent a letter to Local Councils warning that the latter had to have an updated FAR by the end of 2010. During the process of updating FAR a lot of inaccuracies were found which were accomplished by different accountants throughout the years. A decision was *taken by the Council following recommendation by the accountant to start from scratch. The only problem was the fact that the tender did not stipulate an hourly rate for additional works. The idea of issuing a quotation for FAR was very remote due to time limitations and also due to the fact that the Council did not want to have two separate accountants working with the Council. An unanimous agreement was reached with respect to the 5% to be paid.*

The Council recognised the amount of €275,722 as deferred income representing various agreements entered into with MEPA in respect of UIF funds, receivable for several projects being undertaken. Given that LGA was not provided with adequate working and supporting documentation, this figure could not be validated and thus the audit report was qualified in this respect.

Likewise the amount of €13,598, representing grants released from the deferred income to the Statement of Comprehensive Income, was not backed by the respective workings. In the absence of supporting workings, and unkown basis for judgement undertaken by the Council in arriving to these amounts, LGA could not test the amounts recognised in the Financial Statements, and the audit report was qualified in this respect.

The recommendation highlighted by the auditor will be taken up in the year ending 2011, and if any, adjustments will be made accordingly.

Various prior year adjustments to the retained earnings, in aggregate amounting to €21,692 were recognised in the Financial Statements to amend previous years' misstatements. This triggered a qualification in the audit report since no workings were provided to LGA and thus it could not be confirmed that the adjustments were properly accounted for.

The Council hopes that it will not have to pass prior year adjustments, but the recommendation was noted and will be taken up when warranted for.

The Financial Statements include an amount of €338,625 as amounts receivable from LES, mainly resulting from Tribunal Pending Cases, but also including various sub-nominal accounts. LGA could not easily trace the amounts actually due by the different parties and therefore the Council is not in a position to chase its Receivables accordingly. As a result, some of the amounts due may not be recoverable.

The recommendation put forward by the auditors are being looked into in order to improve the present system of recording the LES Receivables.

A supplier was paid twice for the same invoice amounting to €1,291 while another invoice of €5,196 issued by another supplier was posted twice in the accounts, but no payment had yet been effected against the invoice. The balance owed to a third supplier was also overstated. The lack of reconciliation with suppliers' statements and inappropriate accruals workings resulted in cut-off errors, as well as understatement of expenses and fixed assets balances at year-end for a total of €44,322. The Council subsequently passed an audit adjustment for only €39,000, with the remaining balance unaccounted for.

The suppliers are being requested to send in statements, which statement should be sent on their own accord without the Council having to, almost beg for the statement. Nonetheless most do not send in the statements therefore reconciliation is not always possible.

Contingent Liabilities amounting to €8,198, in respect of two bank guarantees, have not been disclosed in the Financial Statements.

The respective copies of the bank guarantees have been requested from the Council's bankers and will eventually be recorded accordingly.

Marsaxlokk

An agreement was entered into in October 2009 between the Council and the local football club for the renting of the football ground for a total charge of €16,400 covering seven years. Notwithstanding that rent cannot be prepaid for more than one year, and that the agreement should not have been longer than three years, the Council paid this one lump sum in advance. Besides that, no call for quotations or tender offer was issued. In addition, as also expressed in the prior year, LGA is sceptic of the value being derived from such a long term agreement, as well as from the nature of the service being provided. The substance of such an agreement is considered as a donation in kind provided by the Council to the football club. This has also to be seen in the light that in the year in which the Council entered into this agreement, it incurred a deficit of more than €8,000. The incurrence of further expenses related to this agreement, including insurance as well as repairs and maintenance costs, cannot be overlooked.

The issue was already tackled during the audit of 2009 which is the year when the agreement with the Marsaxlokk football club was signed. As stated in the Management Letter in respect of 2009, the main reason for the agreement with the club was to promote sport in the locality especially for the under 18's. 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. The auditor's recommendation was noted and no other such long term agreements have been entered during 2010.

The Council applied the wrong depreciation rate to a number of assets, whilst other assets have been allocated to an incorrect asset category in FAR.

Depreciation and grants in FAR were understated by €108,983. On the other hand, NBV in FAR was overstated by €255, while the total cost was understated by €1,250.

An effort is going to be made in order to record the assets that were disposed of and to update FAR. This will also involve the reconciliation between FAR and the Nominal Ledger and the adjustment of the depreciation rates to bring these in line with the Financial Procedures.

The budget for 2011 shows a Capital Commitment of approximately €78,300. However, the respective amount was understated by €16,700 in the Notes to the Financial Statements.

The Capital Commitments disclosed in the Financial Statements were calculated prior to the finalisation of the budget. The auditor's recommendation has been noted.

The Council failed to recognise accrued income of €5,000 in respect of 'Fondi Speċjali bi *Bżonnijiet Speċjali'* as well as €16,400 in respect of compensation for road reinstatement through an agreement signed with WSC for the years 2008 – 2010. Audit adjustments were proposed by LGA and passed accordingly.

The points raised by the auditor have been noted and the necessary adjustments made.

An amount of €12,854 owed to an architect is long overdue and has been in the books since prior periods. The Council stated that there is no recent evidence to show that this amount is payable. It also decided not to send any correspondence to the supplier since the amount payable is being disputed.

The auditors' recommendations have been noted regarding legal advice on this matter.

A gift in kind amounting to €150 was made to the new parish priest.

Please note the immateriality of the amount that was donated by way of a gift to the new parish priest. The recommendation by the auditor has been noted and similar situations will try to be avoided in the future.

Mdina

Notwithstanding that in 2010 the Council collected fees from the renting of the Mdina square for public activities, totalling to €1,100, a bye-law is not in place to regulate such income.

With respect to the rental of public spaces in Mdina, the Council only charges an administration fee in connection with cleaning and warden services related to the rental of such places.

The Council organised and paid €653 for a Christmas staff party for Councillors and its staff.

Most of the expenses were collected from the participants.

Items that should have been accrued or accounted for as payables, amounting to €74,024, were omitted from the Financial Statements. However, no audit adjustments have been passed by the Council to rectify the situation.

The Council will ensure that it correctly accrues for all expenditure in line with the concept of accrual accounting.

The Council has been renting its offices since 1994, however no rental agreement has ever been in place. A total of €37,266 has been accrued for such rent since then, with no payment actually being paid.

LGA's comment about the absence of a proper rental agreement is an issue which the Council had already replied to in previous Management Letters. The Council will be evaluating the issue and proceed to try and find an adequate solution. The Council is also of the opinion that rent should continue to be accrued in its books of accounts until the time the matter is solved.

Mellieħa

A Contingent Liability, relating to a court case, the maximum liability of which can amount to €30,000, was only included in the Financial Statements following auditors' recommendation.

The Council makes every effort to accrue for all expenditure when compiling financial reports. Any omissions are therefore regretted. The Council is taking note of LGA's comments in this respect.

No performance guarantee was provided by a contractor who was awarded two tenders, on the basis that this contractor already held a guarantee with the Council on a third contract. The guarantee on the existing contract amounts to €14,000 while that required for the two projects amounted to €47,424 and €77,058 respectively.

The Council's administration assessed the point highlighted by LGA and asked the contractor to take action as applicable. By the time of writing of this Management Letter reply, the contractor in question has remedied the situation.

Mosta

The Council's clerk responsible for the maintenance of accounting records has limited knowledge of accounting, as well as no specific training of the accounting software used by the Council. This is affecting the quality of accounting work being undertaken by the Council. This issue has already been noted in previous years' Management Letters.

No supporting documentation was provided for the recognition of supplementary Government income amounting to €5,550.

The bidder chosen to carry out accountancy work for the Council is not a registered accountancy firm according to the official list issued by the Accountancy Board.

The Council made a number of payments on account for various social events. These include donations of three medals amounting to €885 in respect of *'Ġieħ il-Mosta';* €54 in gifts to the Committee of *'Jum il-Mosta'*; €295 in trophies and souvenirs during *'Lejla Agrarja*'; €577 in trophies, photos and drinks during the Bird Show; and also sponsored a boxing ring for €350 for a boxing event organised by the Council.

Furthermore, the Council held a party for the children who participated in a Christmas composition, spending €350 in catering.

In previous years, the Council transferred the administration of the football ground *'Tal-Għajba'* in the hands of Mosta Football Club. As a result of this transfer, the latter are required to provide annual audited financial statements to the Council. However, in breach of the agreement, the Council has never received these records. Moreover, LGA were also not provided with a copy of the agreement transferring the administration of the said ground from the Council to Mosta Football Club.

Capital Commitments for the forthcoming year totalling €245,000 were not disclosed in the Financial Statements by way of a note.

The amount of €10,342, recognised as stock of books and maps held by the Council, has been recorded in the Financial Statements at selling price rather than at cost.

As at year end, the Council recognised €252,860 as accrued income. However, the supporting list provided by the Council amounted to €137,548 less than the amount recognised in the Financial Statements. No explanation for the resulting variance was provided.

The Council had cheque payments amounting to €4,770 recorded in its current account which have become stale.

From an analysis of the trade payables list as at 31 December 2010, a number of payable balances, having an aggregate debit amount of €14,943, were noted. The substantial part of these were brought forward from previous years and were never adjusted.

Regular reconciliations of amounts due with supplier statements were not carried out. Whilst from a sample of confirmation letters sent in June 2011, to a number of suppliers having a balance in the list of payables, it resulted that the Council's payables were understated by €3,111. No confirmation from the respective creditors was forthcoming in relation to payables' balances amounting to €241,348.

Other payables amounting to €13,370 relating to 'rents due to Land Department' were not substantiated with supporting documentation and no adequate explanations were given with respect to these amounts.

The accounting of accrued expenses at year-end was not complete and instances where no accruals have been undertaken, or where the accrued expenses accounted for was substantially different from the amount eventually paid or invoiced, were encountered. It transpired that such liabilities were in aggregate understated by €43,220. Moreover, no supporting documentation was provided in respect of €160,868 recognised as accrued expenses in the Financial Statements.

A discrepancy was noted between the list of deposits showing amounts due to applicants for construction/ work permits, and the amount recorded in the Financial Statements. While the former shows that €30,599 is due to applicants, €32,311 is recorded in the Financial Statements as amounts due by the Council to the applicants.

Despite that the Council reported a net current asset position of €282,413, this does not necessarily imply that it is financially healthy as at end of year, especially in view of the issues mentioned above.

The Council did not submit a reply to the Management Letter.

Mqabba

During the year under review, the Council received €115,000 under the Pilot Project for road resurfacing and €3,000 in relation to the embellishment of a public garden. Erroneously, these amounts were reported in full as income instead of under Deferred Income. The necessary audit adjustments were correctly incorporated in the Council's final set of Financial Statements.

In future we tend to pass the grants transactions through their proper channels instead of recognizing them as income in full.

An unreconciled discrepancy of €2,564 between the Personnel Emoluments as per accounting records and the amounts declared in the monthly FS5 forms that were submitted to IRD was noted. The difference was due to the fact that the payment of the Mayor's honoraria in arrears was not included in the FS5 for December 2010, being the month during which payment was issued. However, this has been correctly included in the FS5 for January 2011.

Payments totalling to €8,238 were made by the Council to the two band clubs in the locality, in respect of Christmas decorations and services of musical band and fireworks. The Council claimed that these were made in relation to events organised. A donation of €60 to a philanthropic organisation was also given.

Points not addressed in the Council's reply.

An amount of €9,327 included in the Trial Balance represents unreconciled bank discrepancies accumulated in previous periods.

The outstanding amount of €9,327 includes the aggregate of unreconciled bank discrepancies accumulated over the 16 years of Local Council's operations. The Council is limited in conducting this exercise due to Sage Pastel limitations.

Review of the bank reconciliation in respect of a bank account held with a commercial bank, revealed that the accounting package is netting outstanding receipts with unpresented cheques having the same reference number. Included in the same bank reconciliation featured an item 'reconciliation process receipts' with an amount of €692. This amount represents an unreconciled discrepancy.

The Council has drawn the attention of the auditors that it is finding a difficulty in the reconciliation, as the software is netting the receipts with the payments – as their respective numbers are very similar. We intend to reprint new receipt books with a letter 'R' starting in front of each number as soon as the lot is exhausted. This will eliminate the netting of outstanding receipts with unpresented cheques having the same reference number. The discrepancy mentioned was generated due to the netting of the unreconciled cheques with unreconciled receipts.

A Council member's failure to attend four consecutive meetings in 2010 was justified on the basis that he lives 'far away'.

The failure of attendance to meetings by the Councillor was resolved by DLG. It is true that he lives 'far away' although this is not an excuse. However, the Council excused the Councillor every time he failed to show up in meetings as per signed letters.

Expired contracts for the cleaning of public conveniences, the provision of traffic signs and contract management are being renewed annually. Payments effected during 2010 to the relevant suppliers amounted to €3,368, €2,617 and €8,767 respectively.

The Council continued to provide for accrued rent on the premises it currently occupies even though there is no formal obligation to pay such amount since no rental agreement is in place. The Council is only making a provision for rent due to the fact that in the past, the landlord requested the Council to pay rent when it was not contract-bound to do so. The case was referred to Court some years back and was ruled in favour of the Council. Though the rental annual expense amounts to €1,165, and no payment was recorded during the year, a decline from €16,014 balance as at end 2009 to a balance of €13,685 for end 2010 was registered in the total accrued rent. The Council could not explain such movement.

The situation regarding the ownership of the premises has remained the same. The premises were rented by the Government from third parties and since it is too big to house the Police Station, the Government decided to make better use of it with the setting up of the Local Council at the heart of the village core. Nobody is charging rent to the Council. However, the latter accumulated the sum of €13,685 to make up for any embarrassing situation if it is made to pay the accumulation of rent abruptly. One has to make considerations to the Attorney General's advice to stay put, in order not to prejudice the case with the owners who happen to request yearly the Financial Statements to check this thing out.

An audit adjustment was passed to recognise grants receivable of €49,935 in respect of two projects.

The Council has been deduced by LGA regarding the grant from Central Government pertaining to the pilot project for the resurfacing of roads and also that on the photovoltaic panel. However, adjustments proposed by LGA to rectify any anomalies in accrued grants were accepted.

Despite that the Council's contracted capital expenditure plans amounted to €245,569, these were only included in the Financial Statements following LGA's recommendation.

Point not addressed in the Council's reply.

Msida

An amount of €26,772 (2009: €23,759) was recorded as unidentified LES deposits during 2010. These relate to amounts paid by other Councils for which no deposit slip was sent. A similar Management Letter point featured in the preceding year.

The Council shall start sending a formal letter to other parties who collect monies from contraventions on behalf of the Council, to forward the related deposit slips on a timely basis.

During the year under review, the Council offered a sponsorship to the local football club for the acquisition of trophies amounting to €150. As a result of this, DLG has deducted the amount from the last tranche.

The Executive Secretary had been the first to notice this abuse and had himself reported the matter to the DLG.

A discrepancy of €336, between the Personnel Emoluments as per accounting records and the amounts declared in the statutory forms that are submitted to the IRD, was encountered.

Personal Emoluments are always reconciled on a monthly basis.

During the period under review, the Council issued receipts in a sequential manner. However, it was noted that receipt numbers 751 to 1000 could not be traced.

The Council explained that this was a printing error by the supplier.

Mtarfa

During prior years, the Council disclosed that it holds an amount of books in stock for resale. However, it did not recognise the value of this stock in its accounting records. Notwithstanding that, an insurance cover of €20,000 was maintained in respect of inventories. In the year under review, the Executive Secretary informed LGA that there are no books held for resale. It was also confirmed that no income was generated from sale of books during 2010.

The Council made a number of payments in the form of donations, both in cash and in kind. These include amounts of €100 to each participant of '*Klabb tal-Karozzi'* in view of their participation in Military Mtarfa and a party for elderly persons made in collaboration with '*Dar tal-Anzjani* Mtarfa'.

Actual expenditure incurred in relation to 'Community and Hospitality', which stood at €51,160, was more than twice as much that budgeted, totalling to €22,500. Two major events were the Military Mtarfa event, with an outlay of €28,731 for its organisation and a Carnival event with an outlay of €8,776.

A twinning visit with *'Arvidsjaur'* in Sweden was undertaken by the Council during the year under review. Total amount expended in this respect was of €21,233, thus exceeding the stipulated thresholds laid down in Legal Notice 144 of 2009. Furthermore, despite that the participants had to be representatives of different institutions within the locality, the list included a number of travelling guests which were simply relatives or friends of some of the participants. In fact, all 45 participants were given a subsidised price for their attendance, with the difference funded by the Council. The latter was expected to pay only for the expenses incurred by the Councillors and the Executive Secretary. Moreover, a report in respect of this twinning project was not submitted to the Department.

Regular reconciliations with suppliers' statements are not carried out. Amounts totalling to €1,674, which as per the payables list are due to four suppliers, were not due. An audit adjustment was passed in this regard. Furthermore, the Council had no information on another €390 payable to two suppliers and which have been long outstanding.

One of the employees of the Environmental Landscape Consortium is reimbursed €90 per month for using his personal vehicle for work related purposes undertaken on behalf of the Council. This fixed monthly reimbursement has been established by the Council. Furthermore, this practice is neither covered by any agreement, nor linked to the actual mileage incurred for errands related to the Council. In addition to the above, no proper claim form is being prepared.

Accounting of accruals and deferred income has not been complete and instances were encountered whereby no accruals have been undertaken, or where the actual accrued expense as accounted for was substantially different from the amount paid or invoiced. A total amount of €10,523, represent expenditure unaccrued for.

It was noted that the actual income for the year increased by 10% over that budgeted, while actual expenses exceeded the budgeted amount by 46%.

Capital Commitments for the forthcoming year amounting to €17,500 were not disclosed in the Financial Statements. Following the auditors' recommendation, the Council has inserted this disclosure note in the Financial Statements.

The Council did not submit a reply to the Management Letter.

Munxar

The lack of a written agreement between the Council and MEPA, on funds approved by the latter to the former in respect of the Xlendi Flour Mill project, gave rise to a dispute on the unpaid balance at the end of the current financial year. Whilst in its Financial Statements the Council disclosed the amount of €24,171 as receivable from MEPA as at end of 2010, the latter is stating that the remaining balance due to the Council totals only to €1,498.

This issue with MEPA will be clarified in writing with the authority so that misunderstandings will be avoided in the future.

The Council has not accounted for accrued income receivable under UIF and the Energy Saving Scheme, amounting to €7,547 and €8,639 respectively, covering two projects, which though both completed during 2010, the respective balances were not yet received by end of year.

Points made in the Management Letter were noted and the recommended adjustments made.

Funds received in relation to the Munxar Playing Field project, amounting to €40,000, were erroneously recorded as income rather than recognised as deferred income. An audit adjustment was passed in this respect.

Point noted and the audit adjustments indicated by the auditors were also made.

The Council exceeded the budgeted expenditure for Repair and Upkeep by €20,806 and for Hospitality and Community Services by €8,888.

Recommendations noted. These will be addressed by the Council during the current financial year. Necessary steps have already been taken to avoid exceeding the budget in all areas.

Nadur

The cost of assets in FAR is understated by €31,336 when compared to the Financial Statements. On the other hand, total accumulated depreciation in FAR showed an amount of €1,938,529, while that in the Financial Statements amounted to €1,057,540. Furthermore, the accumulated depreciation in FAR exceeds the total costs of all assets in the same schedule by €139,694. This should have resulted in a negative NBV. However, FAR is reporting a NBV of €747,188 indicating that the register is far from accurate.

Notwithstanding that cost of assets was inputted in FAR, a number of items in different categories had a zero balance of depreciation to date, as well as a zero balance recorded as NBV. This implies that NBV was not recorded correctly and the depreciation of these particular assets was never calculated.

The Football Ground, included under the asset category of Urban Improvements, was recorded with a cost of €1,186 and an accumulated depreciation of €1,186,325. This should result in a NBV of (€1,185,139). However, NBV amounted to €745. Upon further queries raised by NAO on this issue, LGA stated that *"There are mathematical errors in the software"*.

Whilst fixed assets additions recognised in FAR totalled to €70,117, the amount of €82,928 was reported in the Financial Statements. Furthermore, it was noted that there were five assets additions amounting to €10,748 in total, which were included in FAR by 31 December 2010, but had a purchase date of 2011. Depreciation was still somehow charged on these assets.

Invoices unaccrued for at year-end relating amongst others to the resurfacing of December 13th Street, patching works, street lighting costs, and photovoltaic system costs, resulted in unrecorded liabilities of €45,399. The necessary audit adjustments were made in order to recognise these liabilities in the correct period.

At year-end, an amount of €4,659 included under Receivables, represented a bank guarantee in connection with a MEPA permit for '*Ġnien il-Kunsill*'. The Council was in 2010 informed that this bank guarantee in favour of MEPA was forfeited in 2006 in view of a breach in permit conditions. Thus, an adjustment was necessary to write off this receivable to the Statement of Comprehensive Income.

Total expenditure within Repairs and Upkeep, as well as Community and Hospitality categories exceeded the budget by €27,942 and €11,737 respectively.

The Council did not submit a reply to the Management Letter.

Naxxar

A donation of €233 was made to the Community Chest Fund from the Council's funds.

This donation was made during the first week of September 2009. The fact is that by mistake such payment was never recorded. However, since it was noted later on, a provision was made in 2010 to include it. Since the change in law, no donation has ever been made by the Council.

The Council also expended €27,585 on supplies in respect of its twinning with the municipality of *'Mornago'* in Italy during the year under review, thus exceeding the stipulated threshold being the highest of €3,500 or 0.5% of the Council's financial allocation for the year.

The figures quoted do not tally in any way to the audited figures on the Financial Statements. The auditors also failed to take into consideration any income generated from the twinning project, including income from EU. The Council is much aware of the mentioned Legal Notice *and shall continue with its effort to limit expenses for similar activities in a reasonable manner.*

Upon reconciling FAR with the fixed asset codes in the Nominal Ledger, it was noted that both the cost and depreciation (including Grants) in FAR, were understated by €452,626 and €462,218 respectively. Thus, resulting in an overstated NBV of €9,592.

The Council confirms the observation made by the auditors and will be taking necessary action to rectify the situation. The reason the Council has not managed to keep it up-to-date is due to issues with the last two accountants.

Balances due from five enterprises, an individual and a Government entity, which in total amount to €59,712, have been outstanding for more than one year. Included in the aforementioned figure is an amount of €25,409 due from a construction contractor which is being contested in court, but no provision and disclosure have been made to this effect in line with the requirements of IAS 37.

Whilst recommendations made by the auditors are taken up, in the mentioned cases the Council believes that it has enough grounds to keep the amounts mentioned as receivables. In fact, it has already received the amount due by MEPA.

A current account held with a commercial bank was not reconciled. Whilst the balance as per the Council's books of accounts amount to €109,513, the bank confirmation letter shows a balance of €100,575.

Following problems encountered by the Council with the accountants, the reconciliation was made by Council staff and had no option but to do it on Microsoft Excel. However, action is already being taken to carry out the reconciliation on a regular basis on Sage.

Variances between the suppliers' statements and amounts recognised in the payables' ledger amounted to €20,294, out of which the Council adjusted for €8,656, while the remaining €11,638 are still unaccounted for.

Work as per auditors' recommendations is already being undertaken.

A discrepancy was noted between the list of deposits, showing amounts paid by applicants for crane and machinery permits, and the amount recorded in the Financial Statements. While the former shows that €30,284 was paid in deposits, only €26,559 was recorded in the Financial Statements, resulting in a discrepancy of €3,725.

Recommendation made by the auditors will be taken on board.

Instances were noted where expenditure totalling €4,636 was not covered by a proper invoice and fiscal receipt.

The Council would have to clarify that whilst the auditors were not provided with the receipt, due to them being misplaced, all payments were supported by a proper invoice. In the meantime, the Council will continue to insist on proper fiscal receipts however, the mentioned cases are genuine cases of misplacement of documents, since all mentioned suppliers have never failed to issue the receipts.

Paola

Way back in January 2005, the Council entered into a pooling agreement with a number of other Local Councils. A copy of the said agreement was never provided to LGA, despite that the latter has requested it several times during the past years. However, the Council informed LGA that the main scope of the agreement was to pool the expenditure administration of the Żejtun Joint Committee, rather than pooling of funds. During the year under review, funds derived from LES pertaining to 2010, which totalled to €81,200, were not recognised as income but were credited against LES Receivables. Furthermore, the Council has not provided any explanation in respect of an additional €61,539 which was also credited against LES Receivables. It is also to be noted that by the date of the conclusion of the audit work, the Council had still not received the audited annual report of the respective Joint Committee for the year ended 31 December 2010. The audit report has been qualified in this respect.

The Council has written to the Joint Committee and still awaits an answer.

An amount of €4,500 recognised as income, arising from the 'Maintenance of Public Convenience', was not substantiated with supporting documentation.

LGA's comments noted.

During the financial years 2005 and 2006, the Council financed €34,941 for the construction of a synthetic football pitch in Paola. The legal title of the football pitch is in the name of an entity which, although a private limited liability company, is approved as a sports society by the Malta Sports Council in terms of the Sports Act. It was agreed between the Council and the Sports Club that in return for the financing referred to above, in the next five years the Council would be entitled to use the football pitch in accordance with the conditions stipulated in the said contract.

Observation refers to a project carried out in the years 2005 and 2006. Thus the recommendation cannot be implemented in the accounts some five years after the *event. If LGA recommends how this situation can be recitified, the Council will be prepared to take on board recommendations submitted.*

No call for tenders was issued in the case of accommodation required for a delegation hosted by the Council, even though the amount of expenditure exceeded the established threshold of €4,659.

As the Management Letter clearly indicates, the Council does abide by the tendering procedures as much as possible. Perhaps there were a few instances where the Council was pressed for time and failed to adhere to the stipulated procedures. More attention and effort will be given, in future, to ensure adherence to the pertinent regulations.

The amount of €4,387 was expensed from the Council's funds in respect of *'Notte Casal Paola'*.

It is to be noted that the expenditure incurred for the organization of 'Jum Casal Paola' was as reported by LGA. However, it is also to be noted that this particular event was organized jointly with the Ministry of Tourism, the Ministry of Local Government and the Local Clubs and Associations.

The Council has recognised in its Financial Statements, LES debtors amounting to €17,213, in respect of contraventions adjudicated by the Tribunal in favour of the Council. The Council has also reinstated LES debtors previously written off, amounting to €47,397, as a 'positive' provision for bad debts movements in respect of LES debtors. However, since such amounts have been outstanding for more than two years, these should have been provided for in full. Thus LES Receivables as reported in the current year Financial Statements are overstated by €64,610. A qualified audit opinion was provided in this respect.

As per Joint Committee's accountant, there are no outstanding balances referring to pre-pooling. A meeting is to be held with the latter so better clarification on this subject matter is obtained.

As at 31 December 2010, WSC owed the Council an amount of €49,500 as reimbursements for road reinstatement in respect of trenching works carried out for water during the period 2007 to 2010. However, only €11,646 was accounted for in this regard.

Prepaid expenses and Accrued Income were not accounted for appropriately. The amounts of €10,000 and €292 in respect of *'Fondi speċjali għall-lokalitajiet bi bżonnijiet speċjali'*, and interest income respectively, were not recognised. On the other hand, prepayments in respect of rental expenses have been overstated by €184. Other instances have been encountered whereby expenditure relating to 2010 was erroneously accounted for as a prepayment.

LGAs' recommendations will be taken into consideration during the current year.

The bank accounts were being reconciled using Microsoft Excel rather than the Sage Line 50 accounting software. LGA also found many variances arising from the bank reconciliation undertaken at year end for two accounts with one of the commercial banks. The current account included various unpresented cheques totalling to €104,675 as well as other adjustments amounting to €17,118. On the other hand, the reserve account's bank reconciliation included €1,159 as bank deposits, which were not accounted for in the Council's books of accounts. Bank statements in respect of a current account with another commercial bank, were also not provided by the Council for audit purposes.

The reconciliation of the current account is done on the Sage Software while the other bank account requires only a couple of lines to reconcile. Infact, LGA was given a disk containing two copies of the Sage accounts software, one containing the current bank account reconciled on the Sage Software, while the other was not. Apart from this, LGA was also given the same reconciliation on Excel. It would help the Council and reduce loss of time if the auditors would be more specific as to indicate the discrepancies that they found. The Council decided to close off the four bank accounts that it has with a commercial bank as these have not been operated for years.

Cheque payments amounting to €4,784 recorded in the Council's current account were found 'stale'.

The Council would be grateful if LGA makes the relative list of stale cheques available.

The payables list did not agree to the amount in the Financial Statements by €4,783. Furthermore, from samples tested, the Council's payables were found overstated by €34,604. Regular reconciliations between balances in the accounts and the suppliers' statements have not been carried out. Confirmation letters sent in February 2011 to a number of suppliers who had a balance in the list of payables, showed in the majority of replies that no balance was actually due by the Council, whilst others showed a balance different from that accounted for in the Financial Statements.

Creditors' balances will be adjusted during the current year.

While the amount of €4,500 received from Central Government, with regards to a project that will commence in 2011, was recognised in the Statement of Comprehensive Income rather than as deferred income, identified accrued expenses that had been completely omitted from the accounts amounted to €29,534.

The Council has not managed to identify the details of the amount of €4,500.

In the prior year, the performance bonus paid to Council's employees was overstated by €1,275 as it was based on 12 months instead of a nine-month period. Despite that during the current financial year, the extra payment effected was to be deducted, the actual deduction was €697, thus leaving a balance of €578 which still needs to be deducted. In addition, the Financial Statements did not provide for the performance bonus due, in respect of 2010.

Workings are being checked by the Council and any necessary adjustments will then be made. However, since LGA did not provide any details, it would be difficult to ensure that the corrections made would agree with the latters' findings.

The Financial Statements disclosed a Capital Commitment of €200,000 which was not included in the Budget for 2011.

Recommendation will be taken into consideration during the current year.

A prior year adjustment was recognised in the Financial Statements to amend previous period amounts which were omitted from the accounts. This resulted in an adverse net adjustment to the retained funds of €59,451.

No comments were submitted by the Council in this respect.

The net current asset position of €125,433 registered by the Council does not necessarily reflect the actual strength of its financial position, especially when considering that Receivables are overstated by almost €16,464 while Payables are understated by €8,581.

The Council will be meeting to discuss how the financial situation can be improved.

During the current year, the total amount of €5,183 was paid in the form of donations both in cash and in kind from the Council's funds. Additional to this, the Council also contributed more than €1,400 towards the various local activities that it has organised during the financial period under review.

Regarding the donations paid to prison inmates, one must understand that these people had carried out the refurbishment works of Ġnien Pawlu Boffa, a project which took one year to complete. Had the same works been carried out by a contractor, the Council would have had to pay more then €100,000 for the same works.

During the financial year ended 31 March 2009, a computer and electronic equipment were stolen. The accounting treatment adopted by the Council during the year under review, for the recording of stolen computer and electronic equipment and its subsequent replacement was not correct. The accumulated depreciation of the stolen assets was not reversed accordingly against the disposal account.

LGA has noted that the Council has in fact, in the year under review, tried to comply with the recommendations provided in the previous year's Management Letter. However, LGA is still not satisfied with the way the provision for the accumulated depreciation was treated. This will be taken care of during the current year.

Two pending court cases and the possible financial consequences arising from the outcome were not disclosed in the Financial Statements.

Note concerning pending court cases will be included in further Financial Statements.

Pembroke

The Council recognised an amount of €6,000 as accrued expenditure in respect of work actually carried out in subsequent year.

The Council will see that this is not repeated; however it believes that if there is a big expenditure and the Council agreed on this expenditure, than it should go into the accounts immediately.

One Councillor refused to take the Councillor's allowance in the year under review though she is entitled to it, due to the fact that she is on social welfare benefits. In the meantime, such allowance has been accrued for.

The Council believes that it cannot oblige any Councillor to accept the allowances if this Councillor believes that such allowances will help deduct the other benefits currently received from Government.

The Council expended €5,503 in supplies in connection with *'Jum Pembroke'*.

The Council is aware that the sum allocated was exceeded.

A Capital Commitment of approximately €13,120 with respect to the Council's office, Ġnien ta' St Patrick, road resurfacing and purchase of equipment was completely omitted from Note 19 Capital Commitments in the Financial Statements. This was accounted for following the auditor's recommendation.

Since funds committed in capital expenditure can change, the Council does not see the need that these are disclosed in the Financial Statements, despite that these were amended accordingly.

Pieta'

An unreconciled discrepancy of €1,113 was noted between Personnel Emoluments as per accounting records and the amounts declared in the statutory forms that are submitted to IRD.

As reported in prior year Management Letter, cleaning and maintenance of parks and garden by a private company is not supported by a tender agreement. During 2010, expenditure on this service totalled €8,658.

Three cheques totalling €44,212 have been issued before Council's approval was sought.

An interim bill of quantity for the refurbishing of the playing field of €20,513 was capitalised and depreciation was charged on it prior to completion. This project was completed during December 2010. However, the Council did not provide for the remaining portion of unpaid expenditure amounting to €17,839, accruing on the project. Likewise, a grant of €7,615 receivable under a UIF agreement in respect of this project was also omitted from the Financial Statements. The necessary audit adjustments have been approved by the Council in order to recognise these transactions in the books of accounts.

During 2010, WSC issued lists of approved trenching works carried out by the Council between 2007 and July 2010, the value of which amounts to €10,800. An audit adjustment was passed to reflect such receivable in the Financial Statements.

As in the prior year, the amount of €24,885 (net of a provision of €12,644) receivable from WSC was accounted for by the Council as part of its Trade Receivables. The balance is mainly composed of trenching works carried out by the Local Council up to 2006. However, no communications were received from the Corporation or DLG confirming the balance due. In view of the lack of comfort on the recoverability of the amount, a qualified audit opinion was provided.

Rent of €72,793 accruing on the multi-storey car park in '*Triq Alfred Craig* 'was waived off by the Land Directorate, due to the hospital's migration. Thus, rental expense in the Statement of Comprehensive Income is reported as negative €72,305.

The payables' list includes overdue balances of €49,582, comprising mainly of €20,048 outstanding to WSC and €14,749 to an architect. The latter amount related to invoices issued between January 2008 and December 2009.

A local charity organisation received a donation of €300 from the Council's funds.

The Council unanimously approved to seek credit collection services from a private company, to recoup penalties for overdue contraventions. The company is a sub-contractor of the service provider of LES. Whilst the Mayor disclosed his interest of 25% of the issued share capital in the former private company as required by Local Council Act, and was duly documented in the minutes of the pertinent meeting, he still presided and took part in the discussion relating to the proposed agreement. The relevant minutes did not indicate whether the mayor voted on this matter or otherwise abstained.

Besides being disclosed as a Contingent Liability, the amount of €18,870 in dispute with WSC was also included with accrued expenses.

The bank reconciliation for a particular account still includes an outstanding amount of €196 which relates to a deposit that was lost in transit by a particular cash security company. Whilst a police report was filed for an investigation, the Council did not make a claim for insurance since the excess was more than the claim. The Council has asked DLG whether this amount can be written off.

The Council did not submit a reply to the Management Letter.

Qala

A sample of seven expenses totalling €8,488 were not covered by fiscal receipts from the suppliers.

The NBV as reported in FAR is higher than that disclosed in the Nominal Ledger by €31,648. This variance is mainly due to the fact that the register is not being updated.

A number of invoices amounting to €10,919, that were dated up to 31 December 2010 and that were actually received by the Council during the first three months after year-end, were not posted in the Council's books of accounts. Audit adjustments were passed in this respect.

Accrued income totalling €4,000, receivable as an award for winning a competition, was not recognised in the Financial Statements. Books of accounts were adjusted accordingly.

The Council exceeded the budgeted expenditure for Repair and Upkeep by €4,777, Contracting Services by €4,450, and Rent by €436.

Upon the change of employment terms from definite to indefinite contracts, no employment contracts were drawn up by the Council. Thus employees do not have a signed contract in line with their present conditions of work.

The Council did not submit a reply to the Management Letter.

Qormi

No formal contract was drawn up with the individual awarded the tender for the provision of 15 benches and 7 black litter bins. LGA was informed that the tenderer acted only as an intermediary.

The Letter of Acceptance for the tender of the supply of the above mentioned goods was issued on 11 March 2010 to the tender with the lowest offer who installed all the benches and the litter bins on 11 and 12 March 2010. All the tender terms and conditions as stipulated in the tender were fully adhered to by the tenderer within 24 hours.

The Council approved expenses amounting to €14,000 on Qormi Day. Another payment of €1,110 was traced to a five-star hotel relating to a Christmas lunch. The total of these exceeded the 0.5% of the Annual Government allocation, as allowed by the regulations, by €10,202.

These were expenses approved by the Council for Qormi Day, involving all the three local Band Clubs and all other Clubs and Għaqdiet. The Council needs to point out that it was only in memo 122/2010 that the DLG issued the directive that the former cannot exceed the €3,500 or 0.5% of the Annual Government allocation.

The Council made donations to *'Dar il-Kaptan'* and to two band clubs for services given to disabled persons and Christmas street decorations respectively. These payments, which were more a form of donation than a service, were traced from the council minutes. However, the actual amounts paid were not disclosed in the related minutes.

The Council stated that it managed to reach agreements with a number of local organisations in respect of services that the latter is to provide to the former at the stipulated fixed rate. Since 2005 the Council worked hard so that disabled persons can benefit from services offered by the Foundation for Respite Care Services. Transport expenses are also included. This was communicated with and accepted by DLG.

The Executive Secretary made an intra account transfer amounting to €19,184 from the savings account to current account, using internet banking when 'view only' access should have been given.

Following this case of internet transaction, the Council has made all account transfers by notifying the bank in writing. The internet banking system from that date is used solely as 'view only'.

Audit procedures identified a difference of €54,930 between the accumulated depreciation charge as disclosed in the Financial Statements and that computed by LGA.

The Council was not provided with an explanation as to from where the difference of €54,930 is being generated. The Council has always calculated depreciation in line with Pastel Evolution software and with IAS 16.

The Council sought approval from DLG to pay 50% of the costs liable by a contractor to a telephony service provider, due to damages caused to telephone cables while performing cleaning services in the valley for the Council, way back in 2002. However, no response was received from the Department. LGA is of the opinion that such liability should be covered by the contractor's insurance and the reimbursement of €13,202 is not to be paid from the Council's funds.

This issue is still in discussion and no course of action has yet been taken.

An agreement was made during one of the Council's meetings to lend €4,000 to an organisation.

The agreement set out between all Councils was made for each and every Local Council to contribute to the Joint Committee €4,000 as running up costs for the setting up of the organisation in question. All the money was refunded in April.

Qrendi

An audit adjustment of €20,611 was passed to record invoices in the Council's books of accounts, since these were not fully recognised upon receipt. Out of this amount, the balance of €8,617 in respect of road works was originally in dispute, since the contractor did not resurface the road properly. In fact, the Council eventually received a statement which deleted this outstanding amount. However, an official credit note from the supplier was not received.

This Management Letter point was not addressed in the Council's reply.

An agreement with the Cleansing Services Directorate (CSD) for the cleaning and attendance of public conveniences was entered into on 1 March 2010. Although the new agreement did not include the sweeping of *'Wied iż-Żurrieq'* as per the prior agreement, the contractor continued sending invoices for this service for the amount of €4,391. The Council maintained that these services are under the definition of 'beach cleaning', and should thus fall under the responsibility of Central Government. However, a Contingent Liability is not included as a note in the Financial Statements.

About street sweeping, the Council would like to point out that this is doubtful. The Council made several attempts to resolve this issue but to date this has not been sorted out.

Special Needs Funds totalling to €22,781 received by the Council for installing ladders and building of a coast guard room at *'Wied iż-Żurrieq'*, were never utilised for such projects. Instead, the money was transferred to the Council's main bank account and was spent on other projects. Notwithstanding this, the aforementioned balance is still accounted for in the Council's Financial Statements under Special Needs Creditors.

The special projects were once thought to be a coast guard room. In fact, part of these funds were used for the research and development of this project, which went as far as preparation of plans, digs and even application for permits. Still, this project has never materialised.

Long outstanding trade payables which have been carried forward from preceding accounting periods total to €13,412.

This point was not addressed in the reply submitted by the Council.

An unreconciled difference of €2,634 between the payables' list and the creditors amounts recognised in the Financial Statements was encountered. No explanation has been given regarding this difference.

Council requested the accountant to clarify this point.

Grants which have been agreed upon before the end of 2010, but which were not yet received by year end totalling €23,132, were completely omitted from the Financial Statements. An audit adjustment was passed to reflect such accrued income.

Point not addressed in the Council's reply to the Management Letter.

An unreconciled difference of €1,767 was found between the Personnel Emoluments in the accounting records and the amounts declared in the monthly FS5 forms submitted to IRD. Moreover, gross emoluments in the FS5s do not agree to the annual reconciliation statement, namely the FS7, by €4,302.

The Council affirms that Councillors' allowances and employees' salaries will be disclosed separately.

The contract for the resurfacing and patching of roads and various pavement works, which was entered into on 1 December 2006 as a joint agreement with two other Councils, was to run for two years. However, despite that the agreement did not specify any extensions, this was extended until 2010.

Patching works carried during the year under review amounting to €16,495 were capitalised. An adjustment was proposed and passed to expense this amount.

Points not addressed by the Council.

Rabat (Malta)

Road and pavement resurfacing works carried out in connection with the Pope's visit in 2010 at *'Tal-Virtu'* for €29,785 were not duly covered by a call for tenders.

The Council does not agree with this, since it already has a contractor assigned to do such works based on a tender RLC/T.0074/8 Resurfacing of Roads which was issued three years ago and was bound to expire on 2 August 2011.

Payments in the form of donations amounting to €1,744 were effected by the Council. The amount of €250 was given to a television channel for a local production on the locality, while €682 was paid to farmers of '*Fomm ir-Riħ'* in view of the damages incurred in relation to their irrigation system. Trophies costing €580 and €232 for *'Jum il-Bidwi'* and 'Motor Sports' events respectively were also expensed from the Council's funds.

The Local Council paid €250 as a participation fee in a local programme focusing on Council issues. The €682 refers to the Local Council's financial help to farmers who suffered financial losses due to the act of vandalism as a result of arson. The Council bought a water pipe so as no water continues to leak and so no further losses (due to lack of water supply) would be suffered by farmers. The €580 and €232 are trophies bought for the Motor Sport festival and the 'Jum il-Bidwi' respectively. These are not donations; they are simply a memento given to participants.

The Council also expended €5,467 on supplies in respect of '*Jum ir-Rabat'*.

The Council will take the necessary action to meet the LGA's recommendation.

Accruals for pending expenditure were not correctly accounted for. Items amounting to €8,284 that should have been accrued or accounted for as payables, were omitted from the Financial Statements. Following LGA's recommendation, the books of accounts have been adjusted accordingly.

The Local Council has taken note accordingly.

A proper FAR was not being maintained. The cost of fixed assets as per Financial Statements does not agree with that on FAR by €320,287. A difference of €19,761, between the accumulated depreciation in the accounting records and that as per FAR, was also registered.

The Council has taken note and has already started the process to have FAR constructed and updated according to the Local Councils Procedures' requirements. However, this has been done on an Excel Spreadsheet. The Council has already taken action to have FAR available on Sage.

Two bank guarantees in favour of MEPA amounting to €11,647 and €582 respectively were only reflected in the Financial Statements following auditors' recommendation. In addition to this, the Council had also an unrecognised bid bond totalling to €12,240.

The Council has taken note accordingly.

During the year under review, the Council paid for the use of four 'view only' internet banking security keys, which were utilised by the Executive Secretary, two Council clerks and the accountant. However, the only two persons who should have such access are the Mayor and the Executive Secretary.

Action has already been taken to meet the auditor's recommendation.

No disclosure in respect of Capital Commitments was made in the Financial Statements, even though the amount of €19,800 was disclosed in the Council's budget.

The list of projects listed in the Annual Estimates, does not reflect the Capital Commitments authorised or contracted but not yet incurred for during the year under review, but it reflects the Council's plans for the following year. A project to be authorised or contracted must have a Council's decision to issue a call for tenders which is consequently awarded.

Safi

The Council expensed embellishing works at St. Joseph Square, installation of photovoltaic system, and an office jet printer, the costs of which were €55,355, €7,552 and €135 respectively. An audit adjustment was proposed and passed to capitalise these amounts.

Grants totalling to €45,461 received during 2010, were fully recognised as income for the year. The Council has correctly reflected adjustments proposed by LGA to defer the grants to future periods as required by the applicable accounting standard.

Point not addressed in the Council's reply.

The tender for the supply of photovoltaic cells was awarded to a particular contractor for the price of €5,886. Notwithstanding this, the supplier was actually paid the amount of €6,608, i.e €722 more than the quoted price. It also transpired that the grant of €6,800 received by the Council in this respect was even higher than the amount expensed by the latter for such project. Thus, to utilise the additional funds given, the Council claimed that it requested a quotation from the supplier to add other photovoltaic cells. However, this quotation was not provided to LGA for verification.

The Local Council did not submit a reply to this Management Letter point.

Donations paid out of the Council's funds during the year under review, amounted to €1,055 in aggregate.

The stated donations are in fact payments for services given to the Local Council by these entities. The club was paid in respect of band services, while the schools were paid for rent since the Council makes use of the classrooms during its summer school. Another payment was made for the use/ rent of the school hall for a social activity.

The amount of €2,012 owed to the Works Division, will not be paid until the dispute with the latter is resolved. The Council is not in agreement with the amount charged by the supplier, who is maintaining that a more expensive material was used instead of the one requested and agreed upon by the Council.

This point was not addressed in the reply to the Management Letter submitted by the Council.

San Ġiljan

Only one quotation was issued in respect of accounting services. It transpired that the accountant charged an annual fee of €4,650, plus an additional yearly charge of €650 for the preparation of the Financial Statements.

The provision of the services of an accountant was advertised in the local media. This expenditure could not be supported by three quotations as only one application was received.

An amount of €11,200 relating to retention money, paid to the contractor in respect of a project which was finalised during 2009, was recognised as a Fixed Asset in the current year's Financial Statements. It was also noted that fixed assets additions as per Financial Statements do not agree to nominal accounts by €2,252.

Five computers were donated by the Malta Communications Authority, while the Council approved the disposal of two computers which were used by the general public. However, these movements were not recorded in the Financial Statements.

Points noted.

A service provider was overpaid the amount of €1,184. However, this overpayment which was not yet recouped by year-end, was correctly reflected in the Financial Statements. On the other hand, no adjustments were carried out by the Council in respect of double posting of two invoices totalling to €3,897 and the omission of accrued expenses totalling to €5,752.

Since the Council's accountant has submitted a letter of resignation with immediate effect, the former was not in a position to amend the Financial Statements by the due date of 2 May 2011. Hence, the Financial Statements remained as submitted.

During the current year, the Council donated the total amount of €1,881 to finance part of the various activities organised by different community groups in the locality. Such activities included the school's Prize Day, the blessing of animals, organisation of Good Friday and concerts held by the local band clubs. Another €10 was given to the parish priest on the blessing of the Council's premises.

During Prize Days, children should be awarded for their effort and in so doing, the Council feels that it is being part of the community. The Local Council did not give any donations. The list of expenses listed in the Management Letter are not donations at all. In fact, none were posted as donations.

The Executive Secretary was granted the amount of €748 during 2010 as a compensation for making use of her personal mobile phone and car while carrying out Council's duties.

There is a Council decision in December 2005 for a fixed rate to be given to the Executive Secretary for use of personal mobile and car for Council purposes.

Despite that during last year's audit LGA requested relevant documentation in respect of two projects which were carried out during the same year, these were not provided. However such information was provided during the current year. In both cases it was noted that the cost as disclosed in the Financial Statements is higher than the actual cost incurred. Whilst the actual cost of the two projects amounted to €301,352 in total, the amount of €317,323 was recognised by the Council in its accounts. On the other hand, Government Grants received in this respect totalled to €307,584.

An agreement was signed with MEPA on 22 October 2008 whereby the latter was to grant to the Council the amount of €275,494 for one of the projects. Whilst, the amount of €254,603 was received by the Council, payments made to the contractor totalled only to €91,839. Another balance of €30,604 was paid for professional fees and other costs related to the expenses in connection with the project. With regards to the other project, despite that MEPA agreed to provide the amount of €55,743 in the form of grants, only €52,981 was received by the Council. In addition, to the amounts paid to the contractor which totalled to €49,384 the amount of €8,158 was further incurred in respect of professional fees. All income and expenditure for both projects were registered in the accounting records. The Local Council appreciates if the LGA gives the suggested audit Journal Entries to get the Local Council approval and regularise the matter.

Anticipated capital expenditure does not correspond to the disclosures in the Financial Statements. The budget shows future capital expenditure of €42,470, whilst the books of accounts show an anticipated capital expenditure of €190,490.

Point noted.

San Ġwann

Upon the re-computation of the depreciation charge by LGA, a discrepancy of €6,034 less than the amount reported in the Council's Financial Statements was noted.

The Council expensed costs amounting to €8,208 incurred for the embellishment of Almond Square. An adjustment was proposed and passed to capitalise such amount, and was reclassified under Assets not yet Capitalised, since the project was not yet completed.

The minutes of one of the Council's meetings revealed that the latter agreed to pay a contravention incurred by an IPSL worker while he was driving the Council's vehicle using a mobile phone. The amount involved was not mentioned in the foregoing minutes.

Expenses incurred in connection with *'San Ġwann Day'* amounted to €4,930. The Council also spent €500 on Christmas dinner held at a Gozitan restaurant. Total incurred expenditure amounts to €5,430, which is €2,204 higher than the pertinent thresholds (the highest of either

€3,500 or 0.5% of the annual allocation) as stipulated in Memo 122/2010.

Additionally '*l-Istrina'* and Puttinu Cares received donations of €80 and €723 respectively from the Council's funds.

A new tender was issued during 2010 for bulky refuse collection following the expiry of the previous contract. However, this tender issue was not adjudicated because the Council deemed that the submitted offers did not meet the established requirements. Consequently, one of the tenderers filed a court case against the Council, the appeal decision for which has not been communicated by the time of the audit.

A tender for the hire of 50 skips was awarded to a contractor following a call for tenders. However, the payment of €1,846 claimed by the supplier was in respect of 58 skips. Although this increase was not with the approval of the Council, this was not pointed out to the supplier and payment was approved accordingly.

In the Nominal Ledger, Urban Improvements have a negative NBV of €6,271.

While testing the wages reconciliation, an unexplained discrepancy of €306 between Personnel Emoluments as per accounting records and the amounts declared in the statutory forms was encountered. Furthermore, gross emoluments in the monthly FS5 do not agree to the Payer's Annual Reconciliation Statement, namely the FS7, by €11,519.

The Council has not accrued for rent payable since 2002, in respect of the administration and use of cart ruts and the grain silos. The respective invoices have not been issued by the lessor.

A difference of €1,449 was noted between the bank loan balance as per books of accounts and the bank statement. No explanations were given with respect to this discrepancy. The bank reconciliation of another bank account indicated that the amount of a particular cheque was included in the list as €9,734, whilst the actual cheque amounted to €8,945. Furthermore, no bank reconciliations were prepared in respect of another two bank accounts, resulting in discrepancies between the bank statements and the accounts.

Income testing identified sales of books made by the Council. However, due to the fact that a stock list is not kept by the latter, LGA was unable to determine the cost of inventory and whether a provision at year-end was required or not.

Capital Commitments amounting to €67,500 were totally omitted from the books of accounts. Likewise, Contingent Liabilities of €2,000 were not disclosed in the Financial Statements.

Certain Councillors failed to attend in aggregate more than one-third of the meetings called within a period of six months. Although stipulated by the Local Councils Act, the Minister was not informed about this fact by the Executive Secretary.

The Council did not submit a reply to the Management Letter.

San Lawrenz

Significant discrepancies relating to the depreciation charge for the year and the accumulated depreciation of fixed assets were noted. From a sample covering 27% of the cost of the total property, plant and equipment, an understatement of €1,694 and €14,909 in respect of the current year's depreciation and accumulated depreciation respectively, transpired.

While reviewing the bank confirmation letter, it was noted that two bank accounts, held in the name of the Council, were omitted from the accounts. These accounts which have since been adjusted for, related to funds received from Government in respect of a scheme with a balance of €335,315, while the other account was held for minor income generated from sale of postage stamps with a balance of €228. Consequently, a corresponding entry with the balance of €335,315 that was received from Central Government, and which includes an interest element of €176, was passed to adjust payables accordingly.

Amounts of €4,634 received during the year in relation to debtors' balances brought forward, were treated as income instead of being accounted for as settlement of the same receivables. An audit adjustment was passed to correct this error.

The Council provided services in relation to English Language courses given in Malta to Italian students from the twinning town of '*Colle Umberto'*. Once the courses were over, the students evaluated the service received and in certain cases they decided that the level did not meet their expectations with the consequence that they ended up actually paying less than the amount invoiced.

Budgeted expenditure for Office Services, Professional Services, Community and Hospitality, Repairs and Upkeep as well as Contractual Services, were in aggregate exceeded by €75,534.

Variances in respect of payroll have been noted between the FSS reports and the Financial Statements. Gross emoluments as disclosed in the Financial Statements are understated by €1,114 and €914 when compared to the FS3 and FS7 respectively.

The Council did not submit a reply to the Management Letter.

San Pawl il-Baħar

During the year under review, the Council made payments in the form of donations. Whilst the amount of €500 was donated to the parish priest in relation to the feast, other gifts in kind were made to the new parish priest and to fathers of the locality on a Father's Day activity. In addition, financial support was also extended to local entities, whereby trophies and other items such as flowers and champagne costing €2,258 in total were provided.

The Council has informed all local Non-Governmental Organisations (NGO), societies and Church Authorities that it will not be entertaining any future requests for assistance of this kind, and has since turned down such requests.

During 2009, the Council issued a call for tenders for maintenance service of public conveniences around the locality. Following an adjudication process, the tender was awarded to a voluntary organisation (NGO) established in the neighbourhood, namely a local band club, despite that this was not the cheapest offer. Following the adjudication, the cheapest tenderer whose tender was disqualified by *'Sotto Kumitat tal-Offerti'* appointed a lawyer to appeal the adjudication decision. Various reports on this issue were also published by a local newspaper. Following the appeal, the Contracts Committee obliged the Local Council to undertake a re-evaluation of the tender. Consequently DLG also suggested the Council to terminate the current contract and issue a new call for tenders.

Legal advice on the matter was sought from the lawyer, whose advice was, that if the Council decides to either revoke the current contract with the NGO or award the tender to the other bidder, the latter would either way expose itself to be liable for damages should any one of them institute legal proceedings. Considering that the competing bidder has not officially persisted on being awarded the tender, the Council has chosen the least damaging option of not revoking the tender.

Accrued income of €17,180 in respect of road reinstatement undertaken for WSC for the period August to December 2010, were not recognised in the books of accounts. Following auditors' recommendation, adjustments were passed to disclose such Receivables in the Financial Statements.

As pointed out, the Council adjusted accordingly its Financial Statements in this respect.

Included with accrued expenditure is an amount of €10,000 relating to patching, which estimate was said to have been provided by an architect, and which the Council reflected accordingly in its Financial Statements. However, no supporting documentation was provided to LGA in this respect.

The auditors' point has been noted.

A guarantee to a commercial bank, being a pledge which was given by the Council on a savings account held with the same bank for €11,647, was not disclosed in the Financial Statements.

As per the e-mail sent by the bank, the Bank Letter to the auditors, included this pledge erroneously and this matter has now been settled.

In prior years, the Local Council paid €6,354 to MEPA on account of a development application in the name of a local club. This entailed the demolition of the existing playing field and reconstruction of semi-basement indoor '*boċċi'* pitch with overlaying playing field. The Council has triggered the devolution process on this property, however the process is not yet finalised.

To date, agreement has not been reached, however discussions are underway to conclude this matter in due course.

The accounting method currently adopted by the Council is a hybrid one between 'cash' and 'accrual' accounting. During the year under review, certain invoices were recorded when they were paid, at times even by-passing the purchase ledger control account.

The method of accounting used by the Council is on accrual basis. All invoices received are inputted in Sage Line 50 and are given a PDV number as an internal reference. All payments against invoices are matched in Sage and reconciled accordingly.

Sannat

The cost of fixed assets and total accumulated depreciation as recorded in FAR are both understated by €2,351 and €110,811 respectively, when compared to those disclosed in the Financial Statements. Furthermore, NBV of FAR, amounting to €247,809 does not tally to the difference between the total cost and the total accumulated depreciation of Fixed Assets, which stood at €611,802 and €245,960 respectively. This implies that there is an error in the software module as well.

Since depreciation is also being charged on assets that are not yet available for use, as these were still under construction by the end of the year, accumulated depreciation is overstated by €14,803, while the depreciation charge for the year is also overstated by €6,972.

FAR will be reconstructed during the coming year so that the fixed assets and depreciation will be reconciled with the Nominal Ledger. System will be checked for error indicated in the software module. The points made regarding fixed assets have been noted and the necessary adjustments recommended by the auditors have been rectified.

An accrued expense of €31,864 in respect of the provision of two hot rolled asphalt works that were carried out at *'Triq il-Blat'* and *'Triq Vincenzo Caruana'*, which have been outstanding since 2009, was not settled during the year under review. This is due to the fact that the service provider has breached the terms laid down in the Letter of Acceptance and the respective contract, whereby he carried out the second hot rolled asphalt works without seeking prior approval from the Council. Thus the payment was withheld.

Furthermore, the Council's architect is reluctant to certify the works carried out by the same contractor, since the latter had not yet fixed the water retention problem that resulted in '*Triq Santa Marija'*, following works he had carried out earlier on. However, despite that no payments were issued so far in this respect, the Council is considering to approve full payment for the rest of the works that have been carried out. This transpired from Council's minutes dated 15 February 2011, which were still not signed by the time the audit was carried out, implying that the Council is approving payments for works not yet certified by an architect.

The points made by the LGA regarding the retention of funds by the Council are the exact reasons why the latter has not paid the hot rolled asphalt contractor's outstanding bills. Recommendations were noted and the adjustments indicated have been made in the accounting records.

Full documentation, relating to the tender for the collection of waste from bins, was not provided for audit purposes. The Council claimed that the documents are located at the Munxar Local Council which administered the joint tender.

The Council entered into an agreement with the locality of Xewkija, for embellishment works at *'Mġarr ix-Xini'*. It was agreed that Xewkija forks out 75% of the cost, whilst only 25% of the expenses will be incurred by Sannat Local Council. However, whilst no formal agreement was drawn up between the two Councils, a copy of the relevant documentation was not retained by Sannat Local Council.

Point was noted and the necessary action was taken by the Local Council.

Santa Venera

Paving works in St. Joseph High Street, costing €17,864, were expensed. An audit adjustment was passed to capitalise the amount, as well as to recognise depreciation expense thereon.

Audit adjustment reflected in the latest set of Financial Statements. Council agreed to deal with expenditure on items of a capital nature as recommended by the auditor.

During 2010, the Council qualified for a grant of €3,246 in respect of *'Lejl Artiġġjanat'* which was held during the same year. However, due to the fact that the Council did not present all the invoices to DLG, the former did not receive the full amount of the grant to which it was entitled.

The Council is chasing the suppliers who did not provide an invoice for their services in respect of the event in order to qualify and obtain the unpaid portion of the grant.

An unreconciled discrepancy of €3,027 between the Personnel Emoluments as per accounting records and the amounts declared in the statutory forms that are submitted to IRD, was noted.

There are no discrepancies with regards to payroll and the amounts declared in the statutory forms that are submitted to IRD.

During 2011, the Council requested a police investigation following excessive water and electricity bills received during 2010, relating to the public convenience, which bills amounted to more than €4,600. A local club is responsible for their cleaning and attendance. Correspondence with ARMS Limited affirmed that the consequence for such an extravagant consumption was due to a fault in the water pipes following works by the club itself. The Council temporarily closed the public toilets until the issue is resolved, while the agreement in force with the club was suspended indefinitely. Furthermore, the Council is not excluding the possibility that the electricity consumption of the club is being illegally borne by the public convenience since the club also has direct access to the toilets from its premises (in addition to the main access from the street).

The Local Council is following up matters closely and examining all the facts carefully so as to protect the Local Council's interest and its finances and to provide a quality service to the community of Santa Venera.

In August 2009, the Council approved the purchase of 12 watches acquired during the year under review, for the value of €200 for the benefit of *St. Venera Boċċi Club*, which were then distributed to the clubs' members.

Point noted. This will not be repeated in the future.

No approval could be traced in the minutes of the Council authorising the acquisition of a laptop and an executive chair amounting to €1,178 in total. Thus, it can be concluded that these were acquired without the Council's prior approval.

The procurement of these assets was discussed in various minutes and was finally approved by DLG after the Council has approved a special resolution to cover the purchase of these items. This approval can be evidenced and confirmed by the Monitoring Unit at DLG.

The ex-Mayor of the Council was still an insured person under the Council's health insurance policy.

This has been duly updated.

The Council planned to carry out two capital projects, namely a football ground and a recreational skate park bearing a total estimated project cost of €1,066,458. Architect's fees incurred in respect of these projects totalled to €18,877. However, in view of the high costs involved, the Council has abandoned such plans.

The Council is in agreement that in future it will not authorise any works unless there is the required financial resources for such projects. However the Council was responsible to pay for the architect's fees amounting to €11,740 and €7,137 as the architect has provided the Local Council with the requested project material which may be used by the Council in the future.

The Local Council still gave direct orders for the provision of electricity services to a particular individual on a regular basis, for a total cost of €4,511 during 2010.

The Council obtains the services of this individual, namely related to electricity by way of an emergency service. In future, the Local Council will be issuing either quotations or a tender for such services to be in line with Local Council Financial Procedures.

An amount of €1,332 was spent on catering and waiter services in relation to the locality's patron feast.

Point noted. In future, there will be strict compliance in accordance with memo 122/2010.

The Financial Statements disclose an anticipated capital expenditure higher than that reported in the Council's budget by €182,712.

Commitments in relation with the Private Public Partnership in connection with the resurfacing of five streets were undertaken by the Council. In the Financial Statements the whole amount of this commitment is included. However, since there are agreed payment terms over a period of 8 years as at year end, this is not fully recognised in the budget. The amount of €3,000 has been provided for in the Budget corresponding to the purchase of equipment for gardening tools, but to date no purchase order for such items had been issued yet.

Siġġiewi

Trenching works carried out by the Council between 2007 and July 2010 on behalf of WSC amounted to €41,400. Since such income was not accounted for, an adjustment was proposed and included accordingly.

LGA's recommendations to maintain a registry of the trenching works being performed was noted.

In line with previous year, LGA noted that the Council does not prepare a bank deposit sheet identifying which receipts from general income are deposited to the bank. Consequently, LGA was unable to ascertain that income received is properly deposited and the date of such deposits. Thus, the audit report was qualified in this respect.

The Council prepares a basic bank deposit slip which is then attached to an excel spreadsheet indicating the nature of the income being deposited. However, this procedure will be reviewed and it will be enhanced accordingly.

An overpayment of €2,358, effected to IRD during the prior year, is still shown as other receivable in the Financial Statements.

The Executive Secretary has set instructions for the matter to be discussed and settled with CIR.

The Council made an effort to compile a FAR, which was lacking. However, following the compilation of this register, some shortcomings were noted. The figures in the books of accounts were overstated by €503,684 for cost, and €231,797 for depreciation when compared to FAR. As a result, a total difference of €271,887 between NBV in the accounting records and FAR was identified. These differences, which related to obsolete fixed assets, were erroneously accounted for by means of a current year adjustment in the books of account.

Furthermore, LGA was unable to trace in the register, the capital expenditure in respect of road resurfacing incurred during 2010 amounting to €47,967. These findings raise significant doubts about the completeness of FAR and consequently on the adequacy of the adjustment.

Following LGA notification, the Council updated FAR and revised the adjustment to fixed assets accordingly.

In view of the above, LGA could not ascertain that depreciation charge of €115,916 as reported in the Financial Statements, is fairly stated.

The Local Council went through an elaborate exercise prior to the presentation of the Financial Statements for 2010, to compile a FAR on information from 1995 to 2010. The exercise will continue to develop to meet the criteria presented in the procedures.

The acquisition of decorative lanterns costing €8,880, was erroneously recorded as recurrent expenditure. An audit adjustment was passed to capitalise this expenditure.

Point not addressed

Payments totalling to €19,886 were not covered by a formal tax invoice or VAT receipt.

Point not addressed.

A payment of €1,200 was made to the parish church in respect of Christmas decorations.

The amount in question was not a donation but a payment for services rendered in respect of Christmas decorations that were carried out by a parish group on behalf of the Council.

A payment of €4,399 for a health insurance policy for nine members of the Council, including Councillors and staff, was identified. The only person not part of the policy is the Deputy Mayor.

Local Council Financial Regulations state that "Local Council members may be insured in a health scheme in so far as such Local Council has positive balance of accounts or such scheme does not result in a negative balance in the Council's accounts". For the last ten years, the latter introduced the present Health Insurance scheme, it always had a positive balance of accounts and such scheme did not result in a negative balance in the its accounts.

Three payments to a lighting company, totalling €23,680 for wall-mounted decorative lanterns, were not supported by a call for tenders.

The payments were not supported by a call for tenders since such payments are included in the schedule of rates in the Contract for the Provision of street lighting and installation and maintenance services, which the Council has with the lighting company. The company was the only bidder for the said contract.

Bills pertaining to the Executive Secretary's mobile phone are paid entirely by the Council. During the current year the amount of €1,059 was paid in this respect. No claim forms were filled, and thus no assurance could be obtained that the mobile was utilised for Council duties only.

The Council does not pay the Executive Secretary's mobile phone but does pay a mobile phone used by the Executive Secretary and where necessary other members of the staff during office hours. This is a much cheaper method since calls to mobile phones are not done through a fixed line phone.

Capital Commitments disclosed in the Financial Statements are understated by €54,000 when compared to the Council's authorised capital expenditure plans.

Point not addressed in the reply submitted by the Council.

Sliema

A number of trade payables, amounting to a total of €214,276, of which €162,936 are in dispute, have been long outstanding. The majority of this amount, totalling €145,656 represents Phase Two of the fairy lights project, covering the provision and installation of lights along the Sliema promenade. The entire project was not covered by the original tender although the Council was expected to follow the Procurement Procedures for a new call, given that the variance was greater than 20% of the original contract. Another payment of €8,809 due to an architect was withheld by the Council since the services provided were not covered by a tender, but were procured through a direct order. In another instance, the Council asked the supplier for a transaction history, following legal advice from its lawyer, since the amount due for the collection of recycling waste, as per the Council's records, did not agree to the supplier statement by €7,090.

Action is being taken by the Council in respect of amounts disputed. With regards to the amount of €8,809, the Council decided not to pay this amount since the works were not ordered by the Council. The balance was removed from the Council's records during the financial year 2011. In connection with the amount payable of €7,090, the balance represents charges made to the Council for the collection of recycling waste. This was never ordered and therefore the amount in question will not be paid. As for the large balance, the Council launched a dispute with the supplier. Also, DLG has instructed the Council not to pay any further amounts to the supplier until further notice. The Council may remove the amount from the list of balances and disclose it by way of a note as a contingent liability, only after it has sought legal advice from its lawyer.

A supplier's balance stood at €8,512 at year end but only three requests for payment totalling to €5,817 were traced. No other invoices covering the balance of €2,695 were traced.

The Council is addressing this matter by asking for copy of the requests for payments from the respective supplier to verify the balance accordingly and present it for payment if justifiable. Any invoices which are not payable will be written off and removed from the Council's supplier's ledger.

The Council made donations amounting to €117 to Puttinu Cares.

The Council is aware that donations are forbidden however, the donation was approved in 2009 and paid in 2010.

Whilst recomputing the Council's wages reconciliation, LGA noted a discrepancy of €740 between the Personal Emoluments as per accounting records and the amounts declared in the statutory forms that are submitted to IRD.

Note of the auditors' comments with respect to variances between payroll recorded in the ledgers and statutory forms submitted to IRD were taken and the Council will seek that no variances arise in the future.

Swieqi

The conditions of the respective call for quotations specified that the Council required the services of a qualified accountant. However, the call was awarded to a company not holding a warrant issued in terms of the Accountancy Profession Act to provide accounting services. Furthermore, not even the firm's Director is a Certified Public Accountant.

The accountant's contract expired on 11 October 2010 and was neither renewed nor a new call for tenders/quotations undertaken, by the time the audit was carried out. In view that the amount paid in this respect during the year under review totalled to €6,981, the Council was expected to have issued a call for tender in line with the Procurement Regulations.

The Council would like to clarify LGAs' comment, regarding the accountancy services contract which has expired. This was done as the former followed the latter's advice not to issue any tender for accountancy services before the finalisation of the 2010 audit report.

Upon analysing FSS documentation submitted with IRD, the values of Gross Salaries as submitted in the monthly FS5 forms of 2010 were found €1,007 lower than those submitted in the Payer's Annual Reconciliation Statement, i.e. FS7 form of the same year. Further to that, totals as per FS7 varied by those as per Financial Statements by €2,938.

Whilst the Financial Statements show that Mayor's remuneration totalled to €13,094, income as disclosed in the Payee's Statement of Earnings (FS3) totals to €10,946.

The Council will ensure that FSS documentation submitted with IRD are correctly submitted and accounted for in the Nominal Ledger.

A total of €3,676 was contributed in relation to the organisation of *Jum Swieqi*.

Memo 122/2010 was received on 9 Sept 2010 and Swieqi Day took place on 10 Sept 2010, thus most of the expenditure was already incurred or committed before the memo was issued.

Substantial variances amounting to €12,113 and €9,140 respectively, were noted in the balances of two payables as indicated in their confirmation, when compared to the balances in the accounting records. Furthermore, included in the payable's list is a creditor showing as audit adjustment, amounting to €1,168.

LGA's recommendation to review all payables and ensure that all balances are correct at year end is concurred to.

The Council reversed all receivables relating to LES contraventions in respect of pre-pooling period by means of a prior year adjustment. However, a proper accounting treatment was to provide a provision for bad debts.

The Council does not have access to audited reports stating the amounts receivable from LES.

Contingent Liabilities totalling to €27,880, in respect of a pending case, have not been disclosed in the Financial Statements.

During the year under review, a prior year adjustment of €36,285 was recognised in the Financial Statements to amend previous years' misstatements, in particular in fixed asset balances. However, the necessary classifications and disclosures have not been carried out in line with IAS 8 – Accounting policies, Changes in Accounting Estimates and Errors.

It will be ensured that all disclosures required by IFRS are properly disclosed in the notes to the Financial Statements.

Ta' Xbiex

Up to end 2009, the Council made use of two mobile phones with a fixed contract (one for the Mayor and one for the Executive Secretary). The phone previously used by the Mayor is no longer the responsibility of the Council, since this was transferred to her name before the beginning of the year under review, and thus is now being paid personally by the former. With regards to the mobile phone used by the Executive Secretary, a letter was sent to DLG for further clarification as the Council claimed that memo 109/2010 – *'Użu ta' Mobile Phones'* is not clear about mobile phones by the Executive Secretary. No reply was received from DLG.

The contract expires in August 2011 and will not be renewed.

The amount of €8,615 payable to a private limited company for the installation of photovoltaic system is higher than the tendered amount of €5,967. The Council claimed that extra cable lines were required. However quotations for the extra lines were not obtained. Furthermore, it was noted that no contracts were drawn up in this respect.

Comments and suggestions were noted.

During the testing of custodial receipts on behalf of LES, it was noted that the Council endorsed, together with the analysis of payment, a copy of the bank deposit advice which does not belong to that contravention, although it has the same amount. Consequently LGA was unable to determine whether such receipt was deposited or remitted intact and on a timely basis.

The Council has been pleading for years to be provided with some form of identification system which would match the deposit within the bank to the actual fine being settled. If two or more fines of the same amount are received on the same day from different Councils, there is no means to tag one deposit with a particular fine.

Testing of Receivables revealed discrepancies between the actual amounts owed by three debtors totalling €62,161, and the Receivables' list provided by the Council. Furthermore, a balance of €3,373 incorrectly recognised in the books as owed by LCA, is actually not due. The Council investigated the situation and rectified this deficiency.

The Council will try to implement to the fullest the recommendations provided by the same auditors.

Some balances on the payables' list provided by the Local Council were not valid payables as they were already paid before year-end. As a result the amount disclosed in the Financial Statements was overstated by €6,169. This discrepancy was corrected following an audit adjustment.

The Council will adhere to the recommendations listed by the auditors.

Though the budget shows future Capital Commitments of €211,380 for the coming year, only €200,560 have been included in the Financial Statements following LGAs' recommendation.

Comments made by the auditors were noted. As stated in note 19 of the Financial Statements, none of the future capital expenditure listed had actually been committed and thus there was no possibility to list any capital commitments for the year.

Tarxien

A number of books about the locality were donated to organisations and individuals. These were accounted for as printing expenses, instead of disclosed as donations of books in the Nominal Ledger.

The Local Council does not agree that this was a donation. This was a presentation of a nominal amount of books from the Council about the Tarxien locality to foreign twinned cities delegates and schools for educational purposes.

As reported in the prior year, in 2002, following approval sought from the Ministry for Justice and Local Government, the Council made an investment of €46,588 by entering into a Joint Venture agreement with the local football club and a private limited company, for the management and operation of a 5-a-side football ground namely *'Kunsill Lokali Tarxien'* in the locality. One fundamental condition emanating from the memorandum specifically states that the members of the Joint Venture should provide annual audited Financial Statements on a six monthly basis. However, this requirement is not being fulfilled. Furthermore, 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 Joint Venture has not subjected its Financial Statements to an audit. The Council is presently looking into the matter in a bid to regularise its position. However, it does not agree that a deadlock situation can arise since two out of four members are part of the Council and the Chairman of the Joint Venture who is a Council representative, has a casting vote. Legal advice on the matter is sought. Furthermore, as from 2011, the Local Council will amend its accounting policy to a 'jointly controlled asset' in accordance with IAS 31.

The Council reversed all LES Receivables since they were older than two years. However, the proper accounting treatment should have been a provision for doubtful debts to cover the same amount of debtors.

A written request for the Joint Committee's audited Financial Statement was made.

Accrued income of €14,500, due from LES Joint Committee for contraventions collected during 2010, which was received in January 2011 was only recorded following LGA's recommendation since these were omitted from the Financial Statements. Likewise, an estimated amount of €3,200 due from WSC in respect of road re-instatement works for the period August to December 2010 was also not recognised.

Had the Council been advised of the observation in view of accrued income due from WSC prior to the finalisation of the audit, it would have adjusted the Financial Statements accordingly. On the other hand, the Council was prudent and consistent in recognising income from LES Joint Committee in view of the fact that its accounting policy explicitly states that income from LES is accounted for on a cash basis. However the Council acceded to the auditors' recommendation to recognise LES funds received in 2011 in the financial year ending 31 December 2010.

The amount of €5,111 has been recognised as other payables. Out of the said amount, €4,412 consists of excess grants received by the Council, over the expenses incurred in respect of discontinued Youth Programmes, while the balance of €699 covers reimbursements coming from 2008 which were never claimed. No further details were provided by the Council in this respect.

Observation was noted and matter is presently being investigated.

Valletta

A contract for the lease of a van has expired but the service was still being provided without the issue of a new tender offer. The lease amounts to €6,021 per annum.

Upon reconciling FAR with the fixed assets codes in the Nominal ledger, it was noted that depreciation as recognised in FAR is understated by €9,252.

A variance of €571 transpired upon the reconciliation of salaries as declared in the Payer's Annual Reconciliation Statement (FS7) and those recognised in the Financial Statements.

The Council expensed a total of €3,826 in relation to *Jum Valletta*.

The Council did not submit a reply to the Management Letter.

Xagħra

The total expenditure with respect to Contractual Services, and Community and Hospitality has exceeded the budget during the year under review by €17,123 and €32,218 respectively.

The number of computers included in FAR was more than that actually in existence at the Council's premises. The Council stated that computers dating back more than 10 years no longer exist. However LGA was not provided with the relevant documentation showing that the necessary procedures to write off these items were abided with. An annual exercise has to be carried out to check for any assets impaired or no longer in use.

Council's employees on indefinite contracts do not have a signed contract in line with their present conditions of work.

Despite that Memo 150/2010 stipulates that all expenditure on street signs as from 1 January 2010 should be expensed immediately as repairs and replacement costs, the amount of €5,423 incurred on street signs has been capitalised in line with previous years. An audit adjustment was passed in this respect.

The Council did not submit a reply to the Management Letter.

Xewkija

The Council exceeded the budgeted expenditure for Professional Services by €18,278, Repairs and Upkeep by €11,169, and Community and Hospitality by €10,895.

More attention is to be paid in the coming year not to exceed the budgeted expenditure. However, overall budget was not exceeded and in 2010 ended up with a positive balance.

The cost incurred for the provision of street patching works amounting to €10,322 fell within the tendering procedures bracket. However, the Council opted for a quotation, since it had estimated an amount less than the limit of quotations.

The Council issued three quotations for patching works: for cold asphalt, for the hire of 'romblu' and for the hire of a truck. The sum of €10,322 cannot be taken as one whole quotation but under three different quotations from three different suppliers.

Entries in the Nominal Ledger bank accounts are posted in batches, hence it is difficult to trace particular bank transactions. Furthermore, the payables control account in Sage could not be accessed.

Despite that transactions are posted separately, these are being shown as a batch. As already mentioned above, we are considering changing the accounting software.

The cost, accumulated depreciation and NBV of fixed assets, as disclosed in the Financial Statements before taking into consideration the audit adjustments, did not agree with balances recorded in FAR. Whilst the cost in FAR was understated by €12,395, total accumulated depreciation was overstated by €4,457, leading to an understated NBV of €16,852. Furthermore, various discrepancies were noted in the calculation of depreciation. From the testing carried out on a sample basis, a difference of €22,347 was noted, mainly arising from *'HOS Ħamrija'* and *'Ta' Gok HOS'* tarmac.

FAR is being kept updated and depreciation is calculated by the software on a monthly basis. Any necessary adjustments were passed. The Council is considering changing its software Sage Pastel Evolution.

Audit adjustments totalling to €21,150 were passed in the books of accounts so as to account for accrued income receivable from WSC for periods 2008 to 2010 which was not yet recorded.

List of works performed during the past years was confirmed by the Council. The necessary adjustments were passed in the books of accounts.

Xgħajra

During a break-in in the Council's office during the year under review, two printers, a Thin Film Transistor monitor and a generator were stolen. These were not reflected properly in the Notes to the Financial Statements. It was also noted that the disposal of the stolen items was not accounted for. In view of the fact that the Council did not keep a FAR, it was not possible to deduce the cost and NBV of the stolen assets. Moreover, when FAR was built up during the year under review, these assets were not taken into consideration. Such assets should have been included in FAR and then recognised as written off during the year.

Variances were traced between the Nominal Ledger and FAR, the latter being understated by €210,616. It transpired that fixed assets covered by grants received specifically for them were not accounted for in FAR.

No proper controls on employees' attendance and entitled benefits are maintained. For example, no proper record is kept in respect to vacation leave and sick leave availed of. This means that one cannot be sure whether limits to the entitled benefits are being adhered to, or whether these have been exceeded.

At year end the Council had Contingent Liabilities amounting to €199,165 that have not been disclosed in the Financial Statements as required by IAS 37 – Provisions, Contingent Assets and Contingent Liabilities.

The Council did not submit a reply to the Management Letter.

Żabbar

The Local Council released €44,805 from deferred income account to the Statement of Comprehensive Income during 2010. Deferred income amounting to €10,432 was labelled as foregone. Despite that LGA was provided with workings, these do not tally to the amounts in the Financial Statements and no explanations were given for the differences. According to the information collected by the latter, the amount foregone is the difference between the amount as per agreement entered into with MEPA during 2009 and the amount actually received. The audit report was qualified in this respect.

The points that LGA raised in this regard are being reviewed and any adjustments that might be needed will be effected during 2011.

The cost and depreciation of assets in FAR provided for audit purposes, are both overstated by €7,007 and €20,932 respectively, when compared to those disclosed in the Financial Statements.

The historical cost of the Fixed Assets in FAR is €2,504,235. Both the Nominal Ledger and the Financial Statements report a total cost of €2,504,235 which is made of total cost of fixed asset amounting to €2,583,848 less assets not yet capitalised totalling to €79,613. Consequently, the Council differs to agree with LGAs conclusion resulting in a variance of €7,007. The only variance known to the Council arises from the calculation of depreciation whilst uploading FAR data from Excel Spreadsheet to the Evolution software. The variance will be looked into in 2011 and will eventually be written off.

Included with payables, the Council recognised the amount of €7,085. This money was deposited in the Council's bank account by other Local Councils. However, the Council could not identify who has forwarded such funds. This means that the Council has a balancing figure which it can neither confirm nor ensure that these are due to the Council and by whom. This amount also gives rise to the understanding that the Council is not keeping proper trace of what amounts it is owed by other Councils accordingly.

The Unidentified Deposits Account originally set-up by DLG, is intended to group those LES deposits made in the Council's bank account that have not been substantiated by the relative deposit slip from the party making the said deposit. Thus auditors' comments, that the Council is not keeping proper trace of what amount it owes to the other Council is out of context and might be misleading. This account is only used in regards to receivables and has no connection whatsoever with amounts due to other Councils.

A grant of €7,485 relating to Regional Park, which was received during the year under review, was netted off against assets not yet capitalised rather than included as deferred income.

The amount of €7,485 relates to the expenses incurred on the Regional Park. At that time, the accounting procedure of recording grants was carried out by crediting the Grants Account and not the income account. The Financial Statements clearly disclose the accounting of the said grant under Note 13. Both the cost and the grant are disclosed under assets still under construction and have been disclosed as such for a number of years.

Żebbuġ (Malta)

Current assets exceed current liabilities by €203,919. However, certain receivables disclosed under current assets have been pending payment for several years. If these receivables are doubtful and are deducted from the relevant category, current liabilities will exceed current assets by €3,657. In addition to this, the Council has approved Capital Commitments of €1,448,425 higher than the funds allocated to the Council by Central Government. This grossly aggravates the liquidity of the Council.

Stock items are stored in a damp environment increasing the risk of deterioration. Furthermore, the Council does not keep a record of stock movement, thus a physical stock take was not performed.

Reimbursements for fuel and mobile phone expenses were made on a fixed basis and there was no indication of the individual to whom the refund was made.

Depreciation has not been calculated on a monthly reducing balance method but rather on an annual basis. This created a discrepancy of €5,000 in the depreciation charge for the year.

Despite that the Council has taken steps with an attempt to reconcile LES revenue disclosed in the financial report, to LES reports, an audit adjusment was passed to increase LES revenue and receivables by €52,660. Notwithstanding this adjustment, a difference of €4,142 still prevailed.

The amounts of €10,561 and €1,808, owed by Siġġiewi Local Council and the then Transport Authority, have been outstanding for several years. Documents substantiating these amounts have still not been obtained by the Council.

The Financial Statements included an amount of €160,089 as receivable from a Government Department, representing expenses incurred for the embellishment of '*Ġnien Ħal-Mula'*. A confirmation of this amount from the latter had still not been obtained by the Council.

Bank reconciliations were prepared and provided by the Council for all bank accounts except for one account, whereby a difference of €15,493 was found. The amounts credited in the Council's bank account, made up of both direct credits of €1,962 and cheques received and deposited by the Council, were not recorded in the accounting records. As a result, the bank balance was understated.

Although the Council's records showed a debit balance of €3,765 in the personal account of a particular supplier, the latter confirmed that he was due the amount of €6,934. The Council was unable to reconcile the difference of €10,699 between its accounting records and the supplier's statement.

The purchase ledger included a number of supplier accounts with a debit balance, in aggregate amounting to €34,382. Upon auditors' recommendation, the Council approved to reclassify these balances in the payables' list to other receivables.

A number of supplier invoices totalling to €10,312, which were received after the end of the reporting period, were not included in the list of accrued expenses. On the other hand an accrual of €7,667 for refuse collection was posted in error. Audit adjustments have been proposed for these deficiencies and correctly reflected in the Financial Statements.

The Council did not submit a reply to the Management Letter.

Żebbuġ (Gozo)

The cost of fixed assets in the Financial Statements did not agree with the cost in FAR by €176,603. Additionally, the total accumulated depreciation in FAR was €550,588 while that in the Financial Statements amounted to €696,736. Furthermore, no movement in total accumulated depreciation in FAR was recorded since the depreciation was not computed through the system but was calculated manually and only recorded in the Nominal Ledger.

The points made regarding Property, Plant and Equipment have been noted and the necessary adjustments will be *carried out. FAR will need to be reconstructed, during the coming year, so that the fixed assets and depreciation will be reconciled with the Nominal Ledger, and obsolete assets will thus be written off.*

New street signs and litter bins had to be accounted for as a current expenditure and not capitalised. At year end, an adjustment was passed by the Council to reallocate additions of street signs of €5,561 made during the year to the relevant expense account. The Council did not update FAR, where it had to write off these additions.

Accrued income receivable from WSC in respect of works carried out between 2007 and 2009 was not recognised in the Financial Statements, thus an audit adjustment of €20,000 was passed to record these amounts accordingly.

The income from WSC for previous years was not accounted for, since during the previous year audit the auditors had not agreed with the accruing for such income as there was no valid signed agreement with WSC. The Council therefore accounted for this accrued income by way of a note to the Financial Statements based on the auditors' recommendation in December 2009. The accruals concept is always followed by the Council unless otherwise recommended by the auditors.

A person who works on a part-time basis is registered as a Council employee with the Employment and Training Corporation, but not included in FSS. As the employer, the Council is obliged to include this individual as a part-time employee under the tax regime.

Point not addressed in the reply to the Management Letter submitted by the Council.

The Council exceeded the budgeted expenditure for Community and Hospitality by €29,096 and Professional Services by €6,173.

Necessary steps have already been taken to avoid exceeding the budget in all areas.

Councils' employees, who are now on indefinite contracts, do not have a signed contract in line with their present conditions of work.

There is an employment contract for the new employee contracted by the Council. However, the employees employed prior to the notice issued by the MJHA on 10 December 2007, reference MJHA/278/2006 regarding definite employment as from 7 December 2007, have no employment contracts.

Żejtun

The Council failed to accrue for a grant of €10,000 that was received in 2011 from Central Government for the organisation of the activity *'Żejt iż-Żejtun'*, related to the year under review.

The accounts will be adjusted by debiting the income for 2011 and crediting the prior year adjustment account, with the amount in question.

Both the cost and depreciation, including grants in FAR, were understated by €798,090 and €782,597 respectively when compared to the Nominal Ledger, thus resulting in an understated NBV of €15,493. Furthermore the depreciation charge for the year, which amounted to €102,552, was calculated on the basis of the records processed in FAR. Consequently, having a FAR not reconciling with the Nominal Ledger implies that the depreciation calculations are very likely to be incorrect. These variances may not reflect a true and fair view of the Financial Statements.

The cost in FAR is actually not understated but is taking into consideration the purchased cost less Government Grants. The exercise currently being undertaken for the proper upkeep of FAR will eventually allocate the Grants to the Purchase Price column and the Revalued Value column will remain as is, save for any adjustments resulting from the exercise itself. The variance noted by the auditors is between the depreciation provision in FAR (€2,046,765) and that in the Nominal Ledger (€2,031,274) and not as presented by the auditors. Cost is not understated by €798,090, the variance is actually the Grants. Furthermore, the deprecation is not understated by €782,597 but only €15,491.

As per Budget for 2011, Capital Commitments amounted to €162,000. However, a total of €230,500 was disclosed in the Financial Statements, by way of a note.

Point not addressed in the Council's reply.

Outstanding Receivables as at 31 December 2010 include the amount of €22,208, covering balances which have been due for more than one year. Though a provision for bad debts has been created, this may imply that the Council is not controlling its receivables in an effective way.

Point not addressed in the Council's reply.

Invoices in respect of Water Services Reinstatement Contributions, with regards to works carried out during 2007 amounting to €18,550, were not accounted for by the Council. Furthermore, amounts outstanding for the periods 2008 till 2010 totalling to €41,128 were also not disclosed in the Financial Statements. In addition to this amount, the Council was also expected to include the monthly invoices issued by the latter to WSC in respect of permits.

This issue was not tackled properly. The balance of €7,639 is net of a receipt for the amount of €18,550 from WSC that was credited to the account without having an invoice accounted for in the ledger. Thus, the actual closing balance should have read €26,189. This balance includes €12,428 dating back to 31 March 2007, on which the provision was made. The necessary adjustments will be reflected in the books of accounts.

The amount receivable from LES Tribunal pending tickets (pre-pooling period) in the Financial Statements as at the end of the financial year, stood at €138,703, and was fully recognised as doubtful debts. Moreover, from documentation produced by Żejtun Joint Committee and made available to LGA during the audit, it transpired that the amount due for the pre-pooling period actually amounted to €100,342.

The amount of €171,512 as quoted by the auditors does not only include the value of the provision for LES debtors but also that for the other receivables. The amounts for provision on general receivables total to €32,809 whilst that for LES debtors amounts to €138,703. The Council cannot understand why the auditors did not draw its' attention about the different values compiled from the Joint Committee since a reconciliation could have been carried out by the Council.

During the year under review, the Council issued a bank guarantee of €4,025 in favour of the '*Kunsill Nazzjonali Persuni b'Diżabilta'*. The Council recognised this as an expense in the Statement of Comprehensive Income. Thus, the Council overstated the expense and understated the receivables.

An adjustment will be made to credit the prior year adjustment account and debit the other receivables account with €4,025.

For the year under review, no proper reconciliation of the amounts payable was performed. A number of instances, where the balance in the payables' list was misstated, were encountered. In two particular instances, one of the balances was overstated by €3,097, while the other understated by €6,240.

Point not addressed in the Council's reply.

The Council recognised a balance of deferred income liability as at financial year end amounting to €331,870. However LGA was not provided with explanations as to the difference between the workings provided, and the amounts recognised in the Financial Statements. The source of such workings, and the basis and judgement undertaken by the Council in arriving to these amounts, were also not obtained. Thus LGA could not confirm with reasonable assurance that the grants released to income were not misstated.

The schedule was drawn up at the end of 2010 and had been submitted to the auditors on 13 May 2011 following their request on the same day.

Żurrieq

Two bank accounts held with a commercial bank did not reconcile to the bank balance as per books of accounts at period end by €4,908 and €109 respectively.

The amounts stated are being recurred from previous years and are now going to be reconciled.

A difference of €494,055 in NBV was identified between FAR and the Nominal Ledger, with the former resulting in a higher figure. No explanations were provided by the Council in respect of these discrepancies.

Government Grants are being accounted for using the capital approach instead of the income approach. In view of this, depreciation recognised in the Financial Statements, which is calculated automatically by the software, is overstated by €16,016.

The discrepancy between computed depreciation and recalculated amount had previously been noted by the accountants who informed the Council through an e-mail on 29 January 2010. This is being calculated automatically by the software based upon the assets' full cost. The relevant adjustment shall be determined and effected in the Council's ledgers by means of a journal entry.

In the Nominal Ledger, street signs have a negative NBV of €9,531. The Council passed a reclassification to show a nil balance in the Financial Statements.

Records are to be revised accordingly to the Statement of Comprehensive Income.

A total amount of €257,546 in LES Receivables was older than two years and related to the period January 2000 to December 2008.

Net LES Receivables in the Financial Statements amounted to €49,661. However, the corresponding figure in the Nominal Ledger amounted to €67,110, thus implying that an increase in the provision for bad debts amounting to €17,449 was only recognised in the Financial Statements. Hence the Nominal Ledger needs to be adjusted accordingly.

As from this year, traffic fines are to be reconciled as recommended.

Government Grants amounting to €248,324, which were received during the year under review, were fully accounted for as income. The necessary adjustments were passed in order to account for such grants under the income approach.

The Council passed the proposed adjustments to correct the mentioned errors.

Petty cash expenditure for the months of January, February, May, November and December was not signed by the Executive Secretary to indicate authorisation and approval.

For the mentioned months, petty cash was not signed by mistake.

Accrued expenditure of €28,243 brought forward from previous year was not reversed, resulting in both payables and expenses being overstated. An audit adjustment to reverse the said amount was passed accordingly.

Point noted.

The Council has long overdue balances of €78,369 with trade creditors brought forward from prior years.

The payables shown in LGA's Management Letter are amounts that both the Council and the companies involved agreed not to be paid because of bad workmanship or other disputes. They are going to be written off.

During the year under review, the Council received €15,900 for jobs executed by WSC during 2007 on tarmac roads. However, the Council only credited the receipt of this amount without recording the invoice at transaction date in WSC control account. Moreover, the Council recorded invoices for 2008 and 2009 in accordance with its records on works performed rather than as confirmed in WSC official lists.

All the Local Councils were informed 3 years after the works from WSC were done. But from this year, the Council is monitoring the amount due and received from WSC.

An unreconciled discrepancy of €1,682 between the Personal Emoluments in the accounting records and the amounts declared in the statutory forms that are submitted to IRD, was encountered.

Point noted.

In its budget for 2011, the Council is anticipating a capital expenditure of €453,712 comprising improvements of €6,750, equipment of €23,000 and special programmes of €423,962. However, these figures do not correspond to those disclosed in the Financial Statements, which show an estimated capital expenditure of €1,425,659 comprising €690,136 on Private Public Partnership, €74,738 on the road resurfacings, €258,186 on new public gardens and €402,590 on *Hal Millieri* Project.

Improvements and special programmes commitments by the Council for the year 2011, show the total cost of the project when all the works are finished.

An amount of €60,947 is disclosed as contingent liability. However, the correct amount should read €7,000, which is the difference between the amount accrued for by the Council and the amount being claimed by the supplier.

As rightly pointed out in various points the Council has taken up the recommendations and is improving continuously on its system. This will help in providing further information to the accountants in a timely manner as to ensure compliance with the relevant Accounting Standards.

Local Councils' Association

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

Despite comments in this respect in last year's Management Letter, FAR is still maintained on Microsoft Office Excel spread sheet which is prone to errors and manual intervention.

The Association does not have any interest to carry out any manual intervention in the plant register and hence the current system is valid for the value of assets that are owned by it.

At the beginning of 2011, LCA received funds amounting to €42,859 from the Office of the Prime Minister (OPM) representing co-financing by the Government in respect of various EU projects. Another €10,591 was received from the Ministry for Resources and Rural Affairs, in respect of a conference held during 2010. Both figures were accounted for as accrued income through an audit adjustment.

The LCA agrees with the audit adjustment proposed by LGA.

Budgeted expenditure for Travel contingencies was exceeded by €4,039.

The matter can be discussed with LGA at a senior level in order to provide more clear explanations of the policy adopted by LCA since inception.

Out of the audit sample selected for testing, a payment of €10,591 covering the hiring of equipment for a meeting which took place between 13 and 15 October 2010 was procured by direct order. When LGA queried this matter with the Association, the latter stated that only one company in Malta had the required equipment.

LCA obtained a quotation from three hotels in respect of another payment of €7,320, in connection with the Mayors' Conference which was held on 26 and 27 February 2010. The expense covered the hire of the conference, hall, lunch, dinner, coffee breaks and accommodation for the Gozitan Mayors.

LCA disagrees with the points in the Management Letter and would appreciate if LGA discusses the matter with LCA's Executive Secretary.

Joint Committees

Notwithstanding the substantial amount of money collected from fines each year by the Joint Committees, no official legislation has been in place to regulate the submission of the Financial Statements by these Committees. Along these years, these Joint Committees have been taking it lenient to prepare and submit the related Financial Statements. Out of nine Joint Committees, only the Central Joint Committee submitted its Financial Statements for the years ending 31 December 2009 and 31 December 2010, to NAO upon the latter's request. However, submission was still incomplete since the corresponding Management Letter was not submitted.

Once again these delays in submission, if at all, 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. Despite that such concern has been voiced by NAO in previous years, followed by various meetings held with the pertinent authorities responsible for Local Councils, the situation still prevailed.

Moreover, Zurrieq and Valletta Joint Committees have in previous years declared that they do not prepare any Financial Statements at all.

Regional Committees

Following the Local Councils' Reform undertaken in 2009, the nine established Joint Committees were to be phased out and subsequently liquidated. The 68 Local Councils were classified under five Regional Committees, namely, the Northern Region, the Central Region, the Southern Eastern Region, the Southern Region, and the Gozo Region as laid down in the revised Local Councils Act. These were officially set up on 1 January 2011 with their first financial period falling due on 31 December 2011. The core functions of these Regional Committees are the management of both LES and Street Lighting. However, it was only as from 1 September 2011 that the administration and management of LES was delegated to them, and thus became operational.

Department for Local Government

Accounting Standards

In view of the fact that to-date Local Councils are still required to prepare their Financial Statements in accordance with IFRSs, the specimen of the Financial Statements included in the Local Councils (Audit) Procedures can be considered outdated vis–a–vis accounting standards. NAO recommends that DLG embarks on an extensive exercise to update the existent template, which will then need to be revised yearly, so as to ensure that the latest amendments in the accounting standards are incorporated. This will assist Local Councils in the preparation of their Financial Statements, whilst also ensuring uniformity amongst them.

Penalties imposed for Delayed Submission of Financial Statements

As from the prior period, DLG decided to start enforcing the provisions of Article 55(3) of the Local Councils' Act which grants the power to retain provisionally part of the allocation until such documents are timely submitted. In fact three Local Councils namely Mqabba, Paola and Żebbuġ (Malta), incurred penalties of €1,990, €378 and €10,546 respectively, for not submitting the audited Financial Statements for the period ended 31 December 2009, by the extended deadline stipulated by the Department being 29 October 2010. During the period under review, NAO satisfactorily noted that DLG adopted a stricter stance and so far applied deductions in all the cases where statutory deadlines were not met. Total deductions incurred as at 22 September 2011 amount to €265,265. **Appendix H** refers.

However, when this report was finalised, the Department was still analysing the various reactions received from a number of Local Councils, following such action by DLG. In the instance that the reason provided, for late submission of Financial Statements, is deemed justified by the Department, the latter may consider refunding the respective Council with the amount unjustly withheld.

Performance Indicators (PIs)

As part of the Local Government Reform consultation process carried out during 2009, PIs covering eight critical areas, namely environment, the road sector, education and culture, human resources management, equal opportunities, citizen participation, customer care and finance were identified. During the same year, the proposed PIs were then discussed with key stakeholders during a workshop organised by the DLG in collaboration with the Centre of Expertise for Local Government Reform (Council of Europe). This was followed by planned task force meetings held by DLG to discuss 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 these indicators. However, although substantial work has been carried out, this project was halted and to date, such PIs are not yet finalised.

These PIs are of particular importance in assisting Local Councils monitor the actual level of performance and determine how they might become more efficient, effective and deliver more value for money. Eventually, these would also enable NAO to carry out Value-for-Money Audits as requested by Local Councils Legislation.

Mid-term Audits

Whenever there is a change in the position of Executive Secretary within a particular Local Council, the Local Councils (Audit) Regulations 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, a number of Local Councils changed their Executive Secretaries and thus were obliged to carry out a mid-term audit. **Appendix I** refers. However, only two Local Councils namely Luqa and Sliema adhered to legislation cited above and performed the required exercise.

The main shortcomings that transpired from the mid-term audit carried out in respect of Sliema and Luqa, as at 10 May and 31 August 2010 respectively, are outlined hereunder.

Luqa

An invoice of €1,077 issued by a restaurant in Gozo, in respect of an outing to the island, was not addressed to the Council.

Observation not addressed.

At the time of audit the Council was using two receipt books concurrently. Furthermore, a particular receipt book (receipt numbers 3451-3500) was missing.

Recommendation noted and enforced.

LGA was not provided with rental agreement in respect to the Council's premises, since this could not be found.

The Council's office is a Government property that is shared with the Government pharmacy/health office. The rent agreement was missing and the Council has contacted the Land Department to send them a copy.

Erroneously the Council recognised in full the third tranche of the Government allocation as income rather than deferring an appropriate portion to the subsequent period. An adjustment of €28,769 was proposed and passed in the books of accounts so that the portion of the allocation relating to September 2010, which was received in advance, be recognised as deferred income.

The Council agrees with the auditors' recommendation regarding income received from Central Government. The accrued income in August was adjusted for in the Financial Statements.

The Council does not prepare a 'bank deposit sheet', meant to identify which income is deposited into the bank. This is also intended to keep adequate control over the receipt of income and the subsequent deposit into bank. Furthermore, receipts relating to tender fees and WSC reinstatement agreement were issued without a date. In this regard, it was difficult to ascertain that such receipts have been deposited intact on a regular basis.

Auditors' recommendation will be implemented.

General income is being recognised in the Council's books of account when deposited into the bank rather than when received. This could indicate a cut-off problem as income received in one period may be reported in the subsequent period.

General income will be recorded when it is received.

An unreconciled discrepancy of €365, between the Personnel Emoluments as per accounting records and the amounts declared in the statutory forms that are submitted to IRD, was encountered. It was also noted that the reconciliation was not prepared correctly since accrued wages, FSS and Social Security Contribution were omitted. If such accruals are taken into consideration, the difference between tax returns and the accounting records would increase to €6,002.

Salaries are paid on a 4 weekly basis and this creates discrepancies when reconciling end of month FS forms with payroll, since there are always accruals that need to be adjusted for. In order to implement the recommendation made by the auditor the Council will need to streamline *the salaries to be issued on a monthly basis rather than a 4 weekly basis.*

A retention fee, which serves as a guarantee against faulty and defective work that may become evident in the near future, was not being applied by the Council on the invoices issued by the respective contractors.

Point not addressed in the reply submitted by the Council.

A difference of €3,006 was identified between depreciation charge as accounted for in the books and that re-calculated by LGA.

FAR and the Nominal Ledger do not agree. Whilst a variance of €206,055 was noted between the cost of assets, accumulated depreciation differs by €377,249, thus resulting in a difference of €171,194 in NBV. It was also noted that fixed assets additions are not included in FAR.

Comments made by the auditors were noted. FAR will be looked into and the necessary adjustments made to reconcile with the Nominal Ledger during the coming financial year. The discrepancy has been brought forward from previous year and will need to be rectified.

Instances were noted whereby the petty-cash is topped up by a clerk who is then reimbursed. The Council explained that this is necessary when they run out of petty-cash.

Recommendation has been noted and the necessary action taken immediately.

The Council does not reconcile income and LES debtors. Moreover, contrary to the direction given by NAO, debtors older than two years were still not being provided for. Consequently, an adjustment was passed to recognise an increase of €35,824 in the provision for doubtful LES Receivables.

The recommendations made by the auditors have been noted. The Council has already sent letters to those having pending fines giving them an ultimatum for payment. This is being done in an effort to collect as many debts as possible still pending for payment under LES.

An invoice of €23,007 issued by the Joint Committee for warden services from May to August 2010 was omitted from the Financial Statements. An audit adjustment was passed in this respect.

Point not addressed.

A long overdue balance of €21,981 with a creditor is in dispute and payment will only be effected if the patching work is performed again.

The owed balance is an amount that is long outstanding for works that were not carried out according to the contract's specifications. The Council is currently trying to find a way to settle the dispute. This amount will not be paid until the works relating to that invoice are carried out properly or a viable solution is agreed to with the contractor.

At 31 August 2010, the Council's future capital expenditure plans amounted to €381,463 of which €222,463 were contracted for before the end of the period. The Council's Financial Statements erroneously show that all Capital Commitments were authorised but not contracted for.

Recommendation made by the auditor was noted.

Sliema

Two computers purchased during the period for the total amount of €2,326 were not traced, when a physical inspection of equipment additions was carried out.

This issue was raised during a Council meeting on 29 September 2010. These computer hardware and software which turned out to be laptops, were returned at the Council's office. The Council has taken all necessary measures to register all portable IT equipment and would only be taken out of the Council premises following the authorisation of the Executive Secretary.

Plant and equipment additions totalling to €6,591 were made by direct order rather than through the correct procurement procedures. Furthermore, five skeleton Christmas trees were procured for €9,166. In this case, quotations were obtained for only three trees.

The Council notes the comments with respect to procurement procedures in the case of plant and equipment additions and, since then, has taken all measures to issue public call for quotations and tenders where appropriate, without resorting to direct orders.

Assets under construction include an addition amounting to €36,000. A request for this payment was submitted to the Council from a contractor in respect of 'extensive alteration works at the council offices'. However, it is clear that no alteration works have been carried out at the Council premises and neither is there any work in progress. A cheque was prepared for payment of the aforementioned amount, but this was not approved and was not sent. At the meeting held on 17 December 2009 the Council approved in principle to refurbish the office but the matter was not raised again in a meeting and neither was any tender issued for alteration works to the premises.

The contractor who had to carry out the office refurbishment in question was met by the Council. It was argued that no amounts should be paid in advance for works which had not been carried out. The contractor agreed to withdraw the request for payment and therefore this matter is now solved accordingly.

Additions to 'Assets under Construction' relating to a fairy light project with a total value of €272,656 was identified. A call for tender was issued by the Council, for phase one of the project, which encompassed the promenade between *'The Carmelites'* and *'Għar id-Dud'*. A fixed contract rate amounting to €96,571 which comprised installation costs of €35,281, maintenance for two years and cost of materials for 300 units for €61,290 was stipulated by the contractor. However, invoices submitted during the period by the latter which totalled to €272,656, included the provision of fairy lights relating to phase 2 of the project amounting to €145,000. This was not covered by the tender issued by the Council. Furthermore, such invoice was issued twice with the same invoice number S/00312, once dated 1 April 2010 which covered the provision and installation of lights on a pro rata basis for 350 trees, and another dated 15 April 2010 but with respect to 450 trees.

The Council is seriously concerned about the proceedings of the Fairly Lights Project and it has stopped all payments as soon as it was instructed to do so by DLG. To date, the contractor has not withdrawn the invoices addressed to the Council since he is insisting that the amounts are payable and due by the latter. No record of any official correspondence bearing written authorisation to the contractor to implement a second phase to the project is traced. Thus it will be a priority of the Council to address this delicate yet serious situation to avoid any illegal action which may be imminent from the contractor's end.

Further to the above, the Council did not obtain the 10% performance bond from the supplier for the extension of the tender that is required to continue with the contract.

The Council agrees that in this case, it did not keep up with the procurement procedures and it has already taken action on the matter to see that all procurement procedures are abided in full.

Assets in FAR, comprising two notebooks and four computer systems, did not contain enough detail enabling LGA to separately identify the assets.

In the Pastel Evolution Software, there is a limitation on the amount of detail one could insert in FAR card. In view of this, the Council uses a system whereby each FAR card is backed up by a copy of the purchase document kept on file. Thus it would be easy to trace the details of the card especially for office and computer equipment. However, the Council agrees with the LGA's recommendation that where possible, items registered in FAR will be physically labelled for easier identification. The former is currently carrying out a physical reconciliation of its internal equipment to identify any obsolete equipment which needs to be disposed and written off.

Depreciation charge as disclosed in the Financial Statements, which is automatically calculated by the software is overstated by slightly over €13,000.

Although the Council consulted the software supplier several times on the issue, no solution was found to date. From the Council's point of view, the problem seems to be generated from the software's system of operation and thus the latter is in an ultra vires position with respect to this matter.

Instances have been encountered whereby procurement amounting to €14,561 was made by a direct order from the supplier, without obtaining the necessary quotations. On the other hand, no call for tenders was issued on three occasions whereby payments effected to the supplier for purchases/works performed exceeded €4,659.

All comments made by the auditors with respect to procurement and tendering procedures are highly appreciated. Although the Council was approving payments for procurements in the Schedule of Payments, it was regretfully not aware that the process and methodology of supplier selection was not in line with the procurement procedures. Since the reporting period, action has been taken accordingly.

The Council paid consultancy fees at a cost of €700 monthly. However, no explanation for these payments was provided.

Point not addressed.

Various maintenance works such as road patching, pavements and reconstruction works have been delegated to various suppliers when a tender has already been called for such services and adjudicated to an individual.

The Council is perplexed why during the reporting period various contractors through direct orders were being utilised for road maintenance instead of making full use of the current contract. The matter was rectified immediately.

A cheque payment of €58,000 was issued on 8 April 2010 and was cashed on 19 April 2010. However, this was not included on the schedule of payments until 21 April 2010.

Since the reporting period, the Council has not issued any cheque payments before being approved by the Council.

An invoice of €280 for a dinner held in a restaurant for eight people was recorded in the books of accounts.

Although this invoice was presented to the Council for payment, the administration could not confirm whether this has been settled or not and therefore it would be verifying the matter accordingly. This is because to date the Council neither received a payment receipt nor a statement reminder for payment. If it is found out that the bill has not been paid, the Council will redirect the invoice to the individual who attended for the lunch in question. The Council absolutely agrees with the auditors that such activities are illegal and not allowed by law.

Appendices

Appendix A – Financial Allocation*

Local Council	Government allocation 1 January – 31 December 2010	Other supplementary income received from Central Government	Other income generated from Local Councils	Total*
	€	€	€	€
Attard	531,021^	51,457	67,850	650,328
Balzan	245,891^	4,126	8,558	258,575
Birgu	246,298	70,420*	155,540*	472,258
Birkirkara	1,081,144	71,678	287,350	1,440,172
Birżebbuġa	614,516	24,592	218,100	857,208
Bormla	373,125	33,290	85,306	491,721
Dingli	292,294^	10,715	43,659	346,668
Fgura	504,888	36,446*	208,671*	750,005
Floriana	316,044	62,374	312,160	690,578
Fontana	130,554^	21,905	7,233	159,692
Għajnsielem	290,596	9,966	22,913	323,475
Għarb	202,398	12,797	43,302	258,497
Għargħur	213,252^	15,538	27,414	256,204
Għasri	156,661^	-	2,896	159,557
Għaxaq	293,665^	2,909	22,385	318,959
Gudja	244,489	4,805	42,475	291,769
Gżira	464,371^	8,500	39,123	511,994
Ħamrun	604,700	42,045	362,121	1,008,866
Iklin	216,142	8,068	14,196	238,406
Isla	246,756	22,114	65,471	334,341
Kalkara	228,168^	20,236	47,624	296,028
Kerċem	232,628	5,555	20,486	258,669
Kirkop	181,473	9,889	128,065	319,427
Lija	227,312	4,966	8,447	240,725
Luqa	349,276	5,000	229,770	584,046
Marsa	460,286^	62,797	128,336	651,419
Marsaskala	678,785	32,834	284,249	995,868
Marsaxlokk	320,239	10,000	43,183	373,422
Mdina	178,878^	10,000	40,635	229,513
Mellieħa	953,148	77,063	120,410	1,150,621
Mġarr	382,382	-	-	382,382
Mosta	976,013	5,549	62,160	1,043,722
Mqabba	239,819	12,861	40,618	293,298
Msida	440,866^	4,682	267,147	712,695
Mtarfa	228,787^	1,267	26,290*	256,344
Munxar	205,382^	40,000	19,735	265,117
Nadur	398,541^	24,496	32,930	455,967
Naxxar	806,463	31,205 *	118,834*	956,502
Paola	605,131^	30,585	32,735	668,451
Pembroke	340,134^	21,428	23,022	384,584
Pieta’	265,304	7,169	146,921	419,394
Qala	248,164	315	21,144	269,623
Qormi	981,507^	69,989	647,493	1,698,989

Appendix A – Financial Allocation (continued)

Local Council	Government allocation 1 January – 31 December 2010	Other supplementary income received from Central Government	Other income generated from Local Councils	Total*
	€	€	€	€
Qrendi	307,283	5,855	33,605	346,743
Rabat (Malta)	935,178^	12,254	56,105	1,003,537
Rabat (Gozo)	482,440	-	-	482,440
Safi	214,835	6,269	58,208	279,312
San Ġiljan	580,971	9,998	362,570	953,539
San Ġwann	645,029^	10,792	56,828	712,649
San Lawrenz	141,925^	12,154	26,315	180,394
San Pawl il-Baħar	1,170,851^	113,170	125,808	1,409,829
Sannat	200,901	4,158	18,644	223,703
Santa Luċija	286,645	5,190	16,773	308,608
Santa Venera	365,229^	12,245	31,404	408,878
Siġġiewi	684,464	16,801	117,466	818,731
Sliema	921,476	19,180	241,955	1,182,611
Swieqi	491,417^	10,598	54,090	556,105
Ta' Xbiex	192,191^	4,662	59,466	256,319
Tarxien	439,239^	4,156*	68,927*	512,322
Valletta	649,392^	78,588	467,470	1,195,450
Xagħra	443,847^	5,667	28,758	478,272
Xewkija	299,962^	16,529	34,382	350,873
Xgħajra	159,154	15,000	26,629	200,783
Żabbar	717,099^	44,085	214,685	975,869
Żebbuġ (Malta)	702,659	5,000	206,486	914,145
Żebbuġ (Gozo)	397,764	24,521	35,954	458,239
Żejtun	723,962^	2,072	100,431	826,465
Żurrieq	658,596^	13,027	150,373	821,996
Total	30,010,000	1,455,032	7,118,859	38,583,891

* 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.

^ - Government Allocation as recorded in the Financial Statements differs from that disclosed in above table, due to the fact that as explained in the 'Areas of Concern' under the heading of 'Accounting', certain fees charged, such as Bring-In-Sites and e-Government fees, were netted off from the Government allocation rather than recognised as expenses.

* - Due to the fact that instances were encountered whereby income was incorrectly classified under the wrong category in the Financial Statements, amounts disclosed in the table above might not reconcile to that recognised in the Financial Statements.

'Other income generated from Local Councils' includes also financial income such as interest earned on bank balances held.

Only the Government allocation was disclosed in the case of Mġarr and Rabat (Gozo) since the audited Financial Statements of these Local Councils had not yet been submitted by the time this Audit 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
Birżebbuġa		X	X	
Bormla		X	X	X
Dingli	X	X	X	
Fgura		X	X	
Floriana	X		X	
Fontana		X	X	
Għajnsielem		X	X	
Għarb		X	X	
Għargħur	X	X		
Għasri		X		
Għaxaq	X	X		
Gudja	X			
Gżira	X	X	X	
Ħamrun		X	X	
Iklin	X	X		
Isla		X		X
Kalkara	X	X	X	X
Kerċem		X	X	
Kirkop		X		
Lija		X		
Luqa		X		
Marsa		X		X
Marsaskala		X	X	
Marsaxlokk	X	X	X	
Mdina	X	X	X	X
Mellieħa	X			
Msida		X	X	
Mtarfa	X	X	X	
Munxar		X	X	
Nadur		X	X	
Naxxar	X	X	X	
Paola	X	X	X	
Pembroke	X			X
Pieta'		X	X	
Qala		X	X	
Qrendi		X		
Rabat (Malta)	X	X	X	X
Safi		X		
San Ġwann	X	X		
San Lawrenz		X	X	

Appendix B – Qualified Reports (continued)

Local Council	1	2	3	4
San Pawl il-Baħar	X		X	X
Sannat		X	X	
Santa Luċija	X	X		
Santa Venera	X			
Siġġiewi		X	X	
Sliema	X			
Swieqi	X	X	X	
Tarxien	X	X	X	
Ta' Xbiex	X	X	X	
Valletta			X	
Xagħra		X	X	
Xewkija		X	X	
Xgħajra		X	X	
Żabbar		X	X	
Żebbuġ (Gozo)		X	X	
Żejtun	X	X	X	
Żurrieq		X		

1. The Financial Statements do not include income from LES for the year. LGAs were unable to determine the amount of income that the Council is entitled to receive since the audited Financial Statements of the Joint Committee for the year ended 31 December 2010 were not yet available. Furthermore, there were no alternative acceptable audit procedures that LGAs could perform to obtain reasonable assurance on the completeness of the share of income or expenses which were recorded in the Financial Statements.

2. The Council's Financial Statements for the year under review were not prepared in their entirety in accordance with IFRSs, since the latter require that all applicable standards and their disclosure requirements should be adhered to. These Financial Statements lack appropriate disclosure in respect of new and revised standards as per the requirements of IAS 1 - Presentation of Financial Statements, IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, IAS 20 – Accounting for Govt Grants and Disclosure of Govt Assistance, IAS 24 - Related Party Disclosures and IFRS 7 – Financial Instruments.

3. Other specific issues for the Local Councils on an individual basis.

4. 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, on the collection of debts due to the Local Councils and on the continued support of the Council's creditors. 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.

Appendix C – Submission of Unaudited Financial Statements

Date of Submission of Unaudited Financial Statements	Local Council
By 21 February 2011 (met the deadline)	Attard
	Balzan
	Bormla
	Floriana
	Fontana
	Għajnsielem
	Għarb
	Gudja
	Ħamrun
	Iklin
	Isla
	Kerċem
	Kirkop
	Lija
	Luqa
	Marsa
	Marsascala
	Marsaxlokk
	Msida
	Munxar
	Nadur
	Pembroke
	Qormi
	Qrendi
	Rabat (Malta)
	Safi
	San Ġiljan
	San Lawrenz
	San Pawl il-Baħar
	Sannat
	Santa Luċija
	Santa Venera
	Sliema
	Swieqi
	Ta’ Xbiex
	Tarxien
	Valletta
	Xagħra
	Xewkija
	Xgħajra
	Żabbar
	Zejtun

Appendix C – Submission of Unaudited Financial Statements (continued)

Date of Submission of Unaudited Financial Statements	Local Council
By 25 February 2011 (within the same week)	Birżebbuġa
	Fgura
	Għargħur
	Għasri
	Għaxaq
	Kalkara
	Mdina
	Mqabba
	Qala
	San Ġwann
	Żebbuġ (Gozo)
	Żurrieq

Appendix D – Submission of Audit Reports on Financial Statements

Date of Submission of Audited Financial Statements	Local Council
By 2 May 2011 (met the deadline)	Balzan
	Birżebbuġa
	Għarb
	Gudja
	Ħamrun
	Isla
	Pembroke
	Qormi
	Qrendi
	Safi
	San Pawl il-Baħar
	Santa Venera
	Sliema
	Tarxien
	Ta’ Xbiex
	Xagħra
	Xewkija
	Xgħajra
	Żurrieq
By 31 May 2011 (one month after the deadline)	Floriana
	Fontana
	Għajnsielem
	Għasri
	Għaxaq
	Iklin
	Kerċem
	Kirkop
	Lija
	Luqa
	Marsa
	Mellieħa
	Msida
	Munxar
	Nadur
	Pieta’
	Qala
	San Ġiljan
	San Ġwann
	Sannat
	Santa Luċija
	Swieqi
	Żabbar
	Żebbuġ

Appendix E – Amounts in Dispute

Local Council	Amount in dispute
	€
Birżebbuġa	19,055
Għaxaq	9,973
Gżira	15,077
Ħamrun	21,401
Luqa	9,831
Mtarfa	2,283
Munxar	1,502
Pieta’	11,118
Qormi	26,838
San Ġiljan	7,496
San Ġwann	14,713
Santa Luċija	5,760
Siġġiewi	24,870
Swieqi	9,140
Ta’ Xbiex	6,340
Xagħra	4,555

Appendix F - Local Councils that failed to submit a reply to the Management Letter by end October

Local Councils		
Attard	Birgu	Għasri
Kirkop	Mosta	Mtarfa
Nadur	Pieta’	Qala
San Ġwann	San Lawrenz	Valletta
Xagħra	Xgħajra	Żebbuġ (Malta)

Appendix G – Management Letter Weaknesses

Local Council	1	2	3	4	5	6	7	8	9	10
Attard	X	X	X	X	X	X		X	X	X
Balzan	X	X	X	X	X	X	X	X	X	X
Birgu	X	X	X	X	X	X		X	X	X
Birkirkara	X	X	X	X	X	X	X		X	X
Birżebbuġa	X	X	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	X
Floriana	X	X	X	X	X		X	X	X	X
Fontana	X	X	X	X	X	X	X		X	X
Għarb		X		X			X	X	X	X
Għargħur	X	X	X	X	X		X			X
Għasri	X	X		X	X		X		X	X
Għaxaq	X	X	X	X	X	X		X	X	X
Gudja	X	X	X	X	X	X	X	X	X	X
Gżira	X	X	X	X	X		X	X		X
Ħamrun	X	X	X		X	X	X	X	X	X
Iklin	X	X	X	X	X		X	X	X	X
Isla	X	X		X	X	X	X	X	X	X
Kalkara	X	X	X	X	X	X		X	X	X
Kerċem	X	X		X	X	X		X		X
Kirkop	X	X	X	X	X		X	X	X	X
Lija	X	X		X			X	X		X
Luqa	X	X	X	X	X		X	X	X	X
Marsa	X	X		X	X	X	X	X		X
Marsaskala	X	X			X	X		X	X	X
Marsaxlokk	X	X	X	X		X	X	X	X	X
Mdina	X	X	X	X	X	X	X	X	X	X
Mellieħa	X	X	X	X	X	X	X	X	X	X
Mosta	X	X	X	X	X	X	X	X	X	X
Mqabba	X	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	X
Munxar	X	X		X	X		X	X		X
Nadur	X	X	X	X	X	X	X	X		X
Naxxar	X		X	X	X	X	X	X	X	X
Paola	X	X		X	X		X	X	X	X
Pembroke	X			X	X		X	X	X	X
Pieta’	X	X		X	X	X	X	X	X	X
Qala	X	X		X	X		X	X	X	X
Qormi	X	X		X	X		X	X	X	X
Qrendi	X	X	X	X	X		X	X	X	X
Rabat (Malta)	X	X	X	X	X	X	X		X	X
Safi	X	X	X	X	X		X	X	X	X
San Ġiljan	X	X	X	X	X		X	X	X	X

Appendix G – 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	X	X
San Lawrenz	X	X	X	X	X	X	X	X	X	
San Pawl il-Baħar	X	X	X	X	X		X	X	X	X
Sannat	X	X		X	X		X	X		X
Santa Luċija	X	X	X	X	X		X	X	X	X
Santa Venera	X	X	X	X	X	X	X	X	X	X
Siġġiewi	X	X	X	X	X	X	X	X	X	X
Sliema	X			X	X	X	X	X	X	X
Swieqi	X	X	X	X	X		X	X		X
Tarxien	X	X	X	X	X		X	X		X
Ta' Xbiex	X	X	X	X	X	X	X	X	X	X
Valletta	X			X	X	X	X		X	X
Xagħra	X		X	X	X	X	X	X	X	X
Xewkija	X	X		X	X		X	X		X
Xgħajra	X	X	X	X	X		X	X	X	X
Żabbar	X	X	X	X	X		X	X	X	X
Żebbuġ (Malta)	X	X	X	X	X		X	X	X	X
Żebbuġ (Gozo)		X		X	X	X	X	X		X
Żejtun	X	X	X	X	X	X	X	X	X	X
Żurrieq	X	X	X	X	X	X	X	X	X	X

1. Property, Plant and Equipment
2. Accounting
3. Local Enforcement System
4. Procurement
5. Salaries
6. Debtors
7. Creditors
8. Cash and Cash Equivalents
9. Invoices
10. Provisions outlined in the Subsidiary Legislation

Note – Mġarr and Rabat (Gozo) are not included in the table above, due to the fact that the Financial Statements and the respective Management Letters of both Councils were not received by NAO by the time this report was prepared.

Appendix H – Deductions applied for Non-Compliance to Statutory Deadlines

Local Council	Unaudited Accounts for the year ended 31 December 2010		Audited Financial Statements for the year ended 31 December 2010		Total
	0.25% of the allocation for not meeting the deadline	0.01% of the allocation for each extra day after deadline	0.25% of the allocation for not meeting the deadline	0.01% of the allocation for each extra day after deadline	
	€	€	€	€	€
Attard	-	-	1,324.55	1,589.46	2,914.01
Birgu	634.25	913.31	634.25	2,410.13	4,591.94
Birkirkara	2,723.63	8,606.66	2,723.63	10,785.56	24,839.48
Birżebbuġa	1,532.91	61.32	-	-	1,594.23
Bormla	-	-	1,015.52	3,858.97	4,874.49
Dingli	728.00	1,688.97	728.00	2,649.94	5,794.91
Fgura	1,257.93	150.95	1,257.93	4,780.12	7,446.93
Floriana	-	-	785.15	314.06	1,099.21
Fontana	-	-	325.78	312.75	638.53
Għajnsielem	-	-	726.11	464.71	1,190.82
Għargħur	529.77	63.57	529.77	1,801.21	2,924.32
Għasri	388.58	31.09	388.58	31.09	839.34
Għaxaq	734.22	29.37	734.22	323.06	1,820.87
Gżira	1,157.83	4,260.80	1,157.83	4,584.99	11,161.45
Iklin	-	-	538.13	538.13	1,076.26
Kalkara	569.49	22.78	569.49	2,892.98	4,054.74
Kerċem	-	-	579.64	486.90	1,066.54
Kirkop	-	-	452.16	379.81	831.97
Lija	-	-	565.79	181.05	746.84
Luqa	-	-	870.56	870.56	1,741.12
Marsa	-	-	1,146.35	1,146.35	2,292.70
Marsaskala	-	-	1,690.27	5,003.18	6,693.45
Marsaxlokk	-	-	797.93	2,904.47	3,702.40
Mdina	445.89	71.34	445.89	659.91	1,623.03
Mellieħa	2,382.32	2,287.02	2,382.32	2,001.14	9,052.80
Mġarr	952.47	2,666.90	952.47	5,448.10	10,019.94
Mosta	2,434.90	7,012.50	2,434.90	11,784.91	23,667.21
Mqabba	593.92	95.03	593.92	760.22	2,043.09
Msida	-	-	1,097.94	483.09	1,581.03
Mtarfa	569.62	637.97	569.62	2,255.68	4,032.89
Munxar	-	-	514.91	82.38	597.29
Nadur	-	-	991.70	634.69	1,626.39
Naxxar	2,008.47	12,372.18	2,008.47	9,640.66	26,029.78
Paola	1,509.33	4,709.09	1,509.33	5,131.71	12,859.46

Appendix H – Deductions applied for Non-Compliance to Statutory Deadlines (continued)

Local Council	Unaudited Accounts for the year ended 31 December 2010		Audited Financial Statements for the year ended 31 December 2010		Total
	0.25% of the allocation for not meeting the deadline	0.01% of the allocation for each extra day after deadline	0.25% of the allocation for not meeting the deadline	0.01% of the allocation for each extra day after deadline	
	€	€	€	€	€
Pieta’	661.49	476.27	661.49	291.06	2,090.31
Qala	617.47	24.70	617.47	98.79	1,358.43
Rabat (Malta)	-	-	2,326.46	4,652.92	6,979.38
Rabat (Għawdex)	1,194.45	3,392.25	1,194.45	6,832.27	12,613.42
San Ġiljan	-	-	1,443.43	635.11	2,078.54
San Ġwann	1,602.33	128.19	1,602.33	512.74	3,845.59
San Lawrenz	-	-	354.06	1,147.14	1,501.20
Sannat	-	-	500.52	140.15	640.67
Santa Luċija	-	-	713.83	228.43	942.26
Siġġiewi	1,704.16	4,430.81	1,704.16	2,044.99	9,884.12
Swieqi	-	-	1,225.85	490.34	1,716.19
Valletta	-	-	1,662.16	3,390.80	5,052.96
Żabbar	-	-	1,802.93	1,514.46	3,317.39
Żebbuġ (Malta)	1,749.47	3,498.94	1,749.47	4,408.66	11,406.54
Żebbuġ (Gozo)	989.80	79.18	989.80	158.37	2,217.15
Żejtun	-	-	1,803.30	8,655.82	10,459.12
Żurrieq	1,651.71	132.14	-	-	1,783.85
L-Assoċjazzjoni tal-Kunsilli Lokali	256.93	51.39	-	-	308.32
Grand Total					**265,264.90**

Appendix I – Change in Executive Secretary

Local Council	Date of change in Executive Secretary
Birkirkara	7 October 2010
Fgura	1 October 2010
Luqa	1 September 2010
Mġarr	5 August 2010
Mosta	1 June 2010
Mtarfa	27 July 2010
San Pawl il-Baħar	16 July 2010
Santa Venera	8 June 2010
Sliema	11 May 2010

Armed Forces of Malta
Third Country Nationals

Background

The unexpected relatively heavy influx of irregular Immigrants, starting in 2000, necessitated the introduction of an annual budget allocation to 'Third Country Nationals' (TCNs), under Control Account 5380. Up to 2003, this Programme and Initiative Account was part of the Police Recurrent Vote. However, as from 2004, the budget assigned for TCNs has been allocated under the responsibility of both the Armed Forces of Malta (AFM) and the Ministry for Justice and Home Affairs (MJHA) responsible for the Closed Detention Centres (CDCs) and Open Centres respectively.

Whilst as from 2011 the control of these irregular immigrants now falls entirely within the responsibility of MJHA, up to end of 2010 the payment of expenses incurred in the provision of the basic needs to TCNs, accommodated at the three CDCs located at Ta' Kandja, Lyster and Safi Barracks, was within AFM's remit. The number of irregular immigrants accommodated at these Centres has decreased from 393 during January 2010, to 58 as at end of year.

For Financial Year 2010, the recurrent original budget allocated to AFM under TCNs Control Account 5380, stood at €6,000,000. During the year, the Ministry of Finance, the Economy and Investment (MFEI) revised this budget downwards to €3,269,599. The actual recurrent expenditure for 2010 amounted to €2,568,825. A substantial portion of this expenditure totalling to €2,047,534 (i.e. 80%) was used for the supply of breakfast, lunch and dinner to TCNs.

Audit Scope and Methodology

The main scope of the audit was to ascertain that:

- expenditure incurred in Financial Year 2010 from Control Account 5380 is accurate, complete and related to TCNs as intended; and

- procurement and contracting activities were carried out in accordance with standing regulations, policies and procedures, thus ensuring efficient administration of public funds.

In total, 50 transactions collectively amounting to €2,296,471, were verified from the total actual recurrent expenditure of €2,568,825 i.e. a testing level of 89%.

Systems Overview

The Detention Service (DS) stores, located both at Safi and Lyster Barracks, caters for the provision of clothing, equipment, accommodation, office service requirement, spares, consumables and various other items required for the hosting up of irregular immigrants.

Inventory items and supplies utilised at the CDCs are procured by the Quartermaster under which the respective CDC falls, following the issuance of a Requisition Note by the officer in charge. Authority for the requested purchases is granted by the Staff Officer I Logistics.

Key Issues

Tender for an Excessive Number of Meals

a) Notwithstanding a total average number of 393 TCNs in CDCs as at end January 2010, as per supply contract dated 2 February 2010, the service provider was awarded a tender valid for 24 months valued €11,315,000 for the preparation, transportation and serving of breakfast, lunch and dinner to a maximum of 2,500 TCNs located in CDCs. As mentioned earlier, the number of irregular immigrants living at such Centres continued to decrease to 58 by the end of the year.

Thus, to honour the foregoing agreement, through Addendum No. 1 to the Contract Agreement signed during September 2010, the provision of meals was extended also to the more vulnerable of the residents housed in selected Open Centres run by the Agency for the Welfare of Asylum Seekers (AWAS) and the inmates at the Corradino Correctional Facility (CCF). This arrangement provided scope for the utilisation of more than 1,000 meals on a daily basis throughout the validity period of the contract and beyond.

Furthermore, the duration of the agreement was no longer governed by the established two-year contracting limit, but until 75% of the original contracted value is exhausted, amounting to €8,486,250.

b) Notwithstanding that the foregoing Addendum was signed during September 2010, verification of invoices and the respective payments to the contractor revealed that the meals started being provided to the Open Centres with effect from March 2010. The amount of €868,206 was paid to the supplier for the period March till August 2010 during which such expense was not covered by an agreement.

Lack of Control on Store Items

Lack of control on the stock falling under the responsibility of DS was noted during the course of the audit. An adequate stock control system, as laid down in Treasury Circular No. 6/2004, was not in place and such stock was not properly safeguarded against theft, misuse and deterioration. This was evidenced by the number of discrepancies detected by the examiners at both DS stores located at Safi and Lyster Barracks respectively. It also transpired that the mandatory annual physical stock-taking exercise was not being performed at both Safi and Lyster Stores, hindering the possibility of identifying slow moving and obsolete items as well as discrepancies arising during the year.

Untrained Officers responsible for managing Stores

The officers entrusted with the responsibility for managing DS stores verbally stated that they never received training in relation to the work they are expected to carry out. Thus, they were neither aware of the procedures to be followed for the proper accounting of stocks, nor that the stock information is to be prepared in a timely and appropriate manner.

Excessive Procurement of Store Items

A procedure indicating the requirements for any potential contingency of TCNs arrivals was not in place. Although a substantial decrease in the number of irregular immigrants accomodated at CDCs was registered, the DS requested AFM to procure items in excessive quantities on its behalf, further increasing the quantities of certain items in stores.

Control Issues

Supply of Meals to Third Country Nationals

Contract Extended beyond its Extension Period

a) The contract for the supply of breakfast, lunch and dinner to a maximum of 1,500 TCNs which was awarded during 2008, was to run for a period of 12 calendar months commencing from 14 days from the date of the signature of the agreement, being 26 March 2008. The tender also provided the possibility of being extended on a monthly basis up to a maximum period of three calendar months. However, through bi-monthly extensions sought from the Department of Contracts, this contract was extended for over seven months up to 21 November 2009.

A new call for tenders in this respect was issued on 13 January 2009, which was also awarded to the same supplier. Despite that the delivery period of meals under the new terms and conditions commenced on 21 November 2009, the binding contract between the contractor and Central Government was only signed on 2 February 2010. Thus, for a period of 72 days, a valid contract was not in place to cover the service.

Extra Meals provided for every Breakfast, Lunch and Dinner delivered

Commander responsible for DS stated that it is a normal practice that ten extra meals are ordered as buffer with every breakfast, lunch and dinner delivered at each of the three CDCs. However, from a reconciliation exercise carried out between the number of irregular immigrants at CDCs as against the number of meals requested by DS, during a three-month period selected as an audit sample, it was noted that the number of daily extra meals delivered was always more than that indicated above.

Shortcomings noted on Notifications to Service Provider

The conditions governing the tender for the supply of breakfast, lunch and dinner to TCNs specify that the exact daily meals requirements are to be communicated to the caterer in due time not less than 24 hours before. However, it was noted that very often communication with the contractor only takes place either when a significant number of immigrants are released from the Detention Centre or upon the arrival of new TCNs. In such cases, the contractor is informed through a fax.

A number of soft copies of the aforementioned faxes were made available to NAO Officers for verification. From the testing carried out, it transpired that:

a) these documents were not always being maintained;

b) details included in a number of faxes sent over to the supplier were on instances not accurate; and

c) when DS notified the service provider to decrease the number of meals to be supplied, the latter took around two days to adjust the number of meals delivered.

Meals ordered for Irregular Immigrants recovering in Hospitals

In addition to the extra meals provided as indicated above, from the testing carried out, it also transpired that in cases where irregular immigrants were recovering in hospitals, food orders were not adjusted accordingly by DS. Thus, food portions entitled to such immigrants were still being ordered and delivered at CDCs irrespective that the latter were provided with meals by the relative health entities.

The reason forwarded by the auditee is that AFM *"are not alerted by hospital authorities when individuals are returned to detention and thus we must have available meals for when immigrants are returned."* NAO does not consider this statement plausible.

Errors on Sales Orders and Invoices prepared by Supplier

From the audit sample taken, NAO encountered four instances where the 'Sales Orders' and the invoices submitted by the service provider contained errors in the number of meals recorded.

No Deductions made to the *Per Diem* Allowance paid to Asylum Seekers provided with Free Meals

As indicated under the first Key Issue, given the sharp decline in the number of irregular immigrants accommodated at CDCs, an alternative use of the contracted quantities of meals provision had to be found. Following consultation with the Department of Contracts, the latter approved that meals – lunch and dinner, over and above what was necessary to meet DS needs, were to be supplied to inmates at CCF as well as to the most vulnerable immigrants at the Open Centres. The concerns indicated hereafter were encountered:

a) Immigrants accommodated at the Open Centres are paid a daily allowance so as to sustain their basic necessities, including food. However, Head of AWAS claimed that given that the provision of meals[1] to the Open Centres is on a temporary basis, pending the exhaustion of Government contractual commitments with the supplier, no deductions were made to the *per diem* allowances paid to those individuals benefiting from such meals. He also declared that the provision of meals has contributed to a more secure environment in the Open Centres.

b) The provision of these meals during the period March till November 2010, triggered an additional expense of €1,297,726 from public funds, when these immigrants are already benefiting from a *per diem* allowance, also covering food.

c) In addition, Head of AWAS also stated that the provision of these meals was also being served as a humanitarian response to non-residents, several of whom claim to be hungry, and obtain this service from the Open Centres.

Personal Care Products distributed to Irregular Immigrants at Closed Centres

Inconsistency in the Distribution of Personal Care Products

The distribution of basic necessities of personal care and hygiene products to TCNs was not consistent from one Centre to the other. A pre-defined list, indicating the actual items and the quantity, said to be distributed every month, was provided by the Safi Detention Centre. However, a different approach was being taken at Lyster Barracks.

[1] 1,000 meals are delivered twice daily (lunch and dinner) to the Open Centres. (Source: Invoices presented for payment by the service provider)

Officers at Lyster Barracks verbally stated that until January 2010, when CDC was still occupied with the irregular immigrants, a number of consumables were given out on a monthly basis, while there was not a fixed period for the distribution of certain other items. Quantities and frequency of such items were supplied at the discretion of higher authority.

As already stated in the second Key Issue, the foregoing CDC does not keep proper stock records, hindering verification of actual quantities and the frequency of stock movement.

Shortcomings in managing Stocks

As also indicated under the second Key Issue, a yearly stock-take is not being performed by the stores held at the Detention Centres. An attempt to reconcile the supply of the personal care and hygiene products, supplied to the irregular immigrants at the Safi Detention Centre, revealed the following shortcomings:

a) Recipients did not endorse any sort of documentation indicating that they have received their monthly entitlements.

b) Records were somewhat being maintained by the Stores Officer in charge of the distribution of such provisions. These mainly illustrated the number of Irregular Immigrants accommodated in different blocks at CDC, together with the quantity and details of the supplied consumables. However, most of the information could not be verified since the relevant reports from the official database, containing total Immigrants by Compound, were neither available nor could be retrieved as at a particular date.

c) Minor discrepancies were noted when comparing the records kept by the Stores Officer to the few reports available by DS from the official database.

d) Though claiming that they have a pre-established list of requirements at Safi Detention Centre, it was noted that such requirements were not always followed.

Food Provision allowed to Maritime Squadron

Lack of Control on Provisions consumed by the Maritime Squadron

A statement detailing the date, the nature of activity and patrol timings during which the ration previously provided was consumed, is to be submitted by the Maritime Squadron to the Staff Quarter Master, upon the placement of a requisition for further provisions.

However, notwithstanding that such statements were not always being evidenced, rations were still being supplied. This was also confirmed by correspondence with the officer in charge of procurement of such rations.

Procured Ration exceeding the Established Entitlements

Circular AFM/1753/000/99 stipulates the amount that is to be expensed on food to be consumed during continuous sea going duties.

According to a calculation prepared by the examiners, Maritime Squadron crew assigned on the 314 patrols conducted during the year under review, were entitled to €22,690 worth of free meals. However, procurement of foodstuff in this regard totalled to €26,536, thus exceeding the allocated financial limits by €3,846, i.e. 17%.

Furthermore, most of the required provisions were being consistently acquired from the same suppliers.

Phone Cards

Lack of Official Source Documentation

During the year under review, the total amount of €8,351 was incurred for the procurement of phone cards to be distributed to TCNs accommodated in CDCs.

However, the official source, from where the respective entitlement derived, was not provided. It was confirmed by Commander DS that such decision was taken at Ministerial level several years ago and that no written documentation was ever made available in this regard.

No Records held in respect of Phone Cards distributed to Irregular Immigrants

As indicated in the preceding observation, it was alleged that irregular immigrants accommodated at CDCs are entitled for a free €5 phone card bi-monthly. However, phone cards were being procured by DS almost on a monthly basis. It also transpired that:

a) while on average, throughout 2010, less than 1,000 phone cards were required to be distributed amongst CDCs inmates, 1,730 cards were procured in that same year;

b) records evidencing the actual number of phone cards provided to TCNs were not available; and

c) these phone cards are usually held by the Lieutenant in charge of the respective CDC who then hands them over to the officer in charge of stores, for distribution. However, the latter does not sign for the cards handed over to him. Likewise, no documentation of any sort, signifying that irregular immigrants have received their entitlement, is being kept.

Inventory

Lack of Responsibility

DS is not taking ownership of the tangible assets procured by the Quartermaster on its behalf, and which are currently located either in CDCs or DS offices. Upon further inquires raised by NAO officers in respect of this lack of control, Commander DS claimed that *"any asset assigned by AFM to DS remains the property of AFM"*.

Inventory Records not compiled

The inventory database compiled in the form of a spreadsheet, in line with Government IT standards, as stipulated in MF Circular No. 14/99, is not being maintained by DS. Consequently, it is difficult to identify the assets falling under the control of DS as well as their location and valuation.

Assets not marked with an Asset Identification Number

Whilst carrying out a physical audit inspection on the inventory items situated at both Hal-Safi and Hal-Far CDCs, it was noted that practically none of the inventory items was physically marked with an Asset Identification Number (AIN) as required in terms of MF Circular No. 14/99. This includes inventory items procured from AFM's Vote.

Room Inventory Lists not Evident

Despite that the Inventory Regulations provide that a list of items of inventory in respect of each room is to be hung on the wall in the room containing the items, this was not evident at any of the CDCs.

Other Matters

Deadlines not met leading to the Ineligibility of EU Funds

During the course of the audit, the examiners came across a letter dated 25 January 2010, where the Commander DS informed MFEI that the call for quotation for the construction of a boundary wall at Detention Centre 'B' Block Safi Barracks failed to cater for the plastering works of the wall. The works on this project, through which MJHA was to make use of EU funds under Emergency Measures 2009, was to be completed by end February 2010.

However, since deadline established by the Commission was not met, the expense of plastering, amounting to €17,460, had to be borne by AFM from funds allocated to TCNs.

Abandoned Contract by the Supplier

The supplier who was awarded the tender for the supply of 10,500 packets of large-sized bio-degradable garbage bags containing ten bags each, withdrew his offer on the ground that the price of €0.15 per packet originally quoted in the tender document was incorrect as the quote should have been per bag and not per packet, notwithstanding that such price was confirmed by the supplier. AFM instructed the foregoing supplier to comply with the Letter of Acceptance, whereby it was stipulated that in the eventuality that he fails to deliver the goods, the supplier was liable to pay the difference in value between the price quoted in his offer and the next cheapest compliant offer.

Since, the supplier failed to deliver the ordered goods by the stipulated deadline, AFM had no other option than to procure such consumables from the supplier quoting the next cheapest price, that of €0.90 per packet of ten garbage bags. The difference in price between the two tenders, paid for by AFM, amounted to €7,875.

Penalties for Late Delivery of Procured Supplies not imposed

The special conditions regulating the call for quotations for the supply of 1,500 mattresses single foam type, specified that *"Bidders failing to deliver the goods within the delivery period stated in their offer will become liable to a penalty amounting to 1% per week of the total contract value"*. The winning bidder for the foregoing supplies quoted the price of €35,985 (incl. VAT) and delivery period of six weeks from the Letter of Intent dated 24 December 2009. However, although the procured supplies were received by AFM on 15 March 2010, that is five and a half weeks after the proposed date, the late penalty fee totalling to €1,979 was not imposed.

Additionally, up to the date of delivery of the goods, the Bank Guarantee submitted by the supplier had expired and was not renewed in due time.

Shortcomings in Hiring of Closed Skips on Wheels

The following shortcomings were noted in connection with the tender for the hiring of 37[2] closed skips on wheels, to be located at various military locations, awarded for a period of one calendar year commencing on 1 June 2009, at the quoted rate of €44.50 per skip monthly.

a) Despite that as per filed documentation, 50 skips were being hired during the months of December 2009 and January 2010 respectively, invoices issued by the supplier were for the renting out of 55 skips each month. Following enquiries raised by this Office, it transpired that authority, presumably obtained from Commander DS, for the hiring of five extra skips requested by the DS for use at Solidarity Block at Ta' Kandja during the aforementioned months, was sought through phone and arrangements with supplier were likewise made by phone.

b) The invoice covering the hiring costs of skips for the month of June 2010, included the full monthly charge of €44.50, notwithstanding that the skip was requested to be placed at the Explosive Ordinance Disposal (EOD) Section in Manoel Island on 30 June 2010.

c) No documentation, informing the service provider that upon its expiration the agreement was to be extended for a further five months, was traced.

d) The Bank Guarantee which expired on 1 July 2010, was extended only up to 30 September 2010. This was eventually returned for cancellation on 6 October 2010, despite that the hiring service was provided up to 31 October 2010.

e) On 12 July 2010, with reference to LN 382/2009, the contractor requested AFM to be refunded part of the new landfill charges that have increased with effect from 1 June 2010. The latter stated that these charges were increased from €0.75 to €20 per ton plus VAT.

   As a result of the new tariffs, the contractor estimated that an additional cost of €864 would be incurred in providing the hiring service to AFM. Thus, the latter was requested a monthly payment of €340 to cover the newly imposed charges.

   Guidance sought from the Department of Contracts by the AFM Adjudicating Board concluded that *"AFM should stick strictly with the agreed conditions of the contract"*. However, on the grounds that the LN was issued after the award of this contract, AFM Adjudicating Board still decided to grant the said contractor the amount requested. Moreover, the additional amount paid was only based on the latter's calculations since this was considered *'fair and reasonable'* by AFM.

Procurement of Plastic Egg Trays on behalf of the Contractor

The amount of €1,264 has been expensed from the TCN's vote for the procurement of 1,330 plastic egg trays following a requisition raised by DS. Although the requisition states that these trays were to replace broken and damaged ones, officers at DS verbally stated that such egg trays were specifically purchased to be handed over to the service provider, following a claim by the latter that the trays provided by the company have not been returned. Correspondence between the service provider and DS, on this issue, was not provided.

Invoices issued prior to the Goods and Services Purchase Order

NAO noted that the non-commitment of funds prior to the procurement of supplies and services was the norm. The Goods and Services Purchase Orders (GSPOs) were constantly being raised on the same day that the Payment Voucher was issued, that is following the receipt of the invoice from the supplier.

Misallocation of Funds

The amount of €23,987, representing payment in respect of the meals provided during the month of August, was incorrectly expensed from Account 2240 – Sundry Materials and Supplies, instead of Account 3060 – Contractual Services, in line with similar postings during the year.

Compliance Issues

Statutory Returns not submitted to NAO

Timely and complete information is not being submitted to the Auditor General in respect of inventory falling both under the responsibility of AFM and MJHA. Neither the inventory database nor the list of additions to fixed assets as laid down in MFEI Circular No. 14/99 – Inventory Control Regulations, are being acknowledged by this Office.

[2] *"The AFM may increase or decrease the number of skips as necessary during the contract."* (Source: Special Conditions for the Provision of Closed Skips on Wheels to the Armed Forces of Malta forming part of the agreement.)

Non-Compliance with VAT Legislation

From the testing carried out on the selected sample, a total of five instances with four suppliers have been encountered whereby neither a tax invoice nor a fiscal receipt was submitted to the recipient. Total of these five payments amounted to €118,768.

Furthermore, despite that AFM acknowledged the fact that such suppliers were in default, these were not listed in the quarterly returns submitted to the VAT Department, as outlined in MF Circular No. 5/2002. In fact 'Nil' returns were regularly submitted by AFM.

Procurement of Materials and Supplies not as per Period Contracts

Instances have been encountered whereby materials and supplies utilised for the repair and upkeep of the Detention Centres, were procured from the open market rather than from the contractor who was awarded the respective period contract. Moreover, these were being acquired at prices higher than those obtained through the period contract.

Recommendations

Key Issues

Tender for an Excessive Number of Meals

Whilst Management is to emphasise compliance with Procurement Regulations in force, it is to be ensured that agreements entered into are drafted to reflect, as far as possible, the current situation i.e., when the agreement is officially entered into, whilst allowing for any potential future contingencies.

Lack of Control on Store Items

Stock control procedures, as stipulated in Treasury Circular No. 6/2004, are to be adopted. The recording process is expected to be computerised. This will enable a proper audit trail for each transaction while control of stock levels would be facilitated. The installation of the STORIT software being utilised across Government, which will also facilitate the valuation of stock, could help to a large extent to mitigate certain problems.

Untrained Officers responsible for managing Stores

Management is to ascertain that officers entrusted with the upkeep of stock records receive the necessary training and are also aware of the standing regulations in order to ensure proper and harmonised stock management.

Excessive Procurement of Store Items

Whilst it is appreciated that the country is to be prepared for certain unforeseen circumstances, a set of procedures is expected to be in place, indicating to what extent Malta is required to be set up for such contingency. This will enable the responsible entity to stock only the required items in an efficient and effective manner, thus reducing waste.

Control Issues

Supply of Meals to Third Country Nationals

Contract Extended beyond its Extension Period

Conditions stipulated in the tender document are to be abided with. Management is to ensure that valid contracts are in place prior to the procurement of services and payment thereof.

Extra Meals provided for every Breakfast, Lunch and Dinner delivered

Food provision is to be based, as far as possible, on realistic figures reflecting the actual number of irregular immigrants accommodated at CDCs during the respective period. The administration of the system is to be adequately monitored in order to avoid unnecessary costs being incurred on extra meals from public funds.

Shortcomings noted on Notifications to Service Provider

For the sake of transparency and cost efficiency, Management is to ensure that the supplier is immediately informed of any changes in the number of irregular immigrants so that no additional meals, in excess of what is actually required, are prepared and delivered.

Correspondence with the service provider is to be clear and accurate. Double checking by an independent officer will enhance reliability.

Meals ordered for Irregular Immigrants recovering in Hospitals

Management is to abide by the contract agreement and place its order with the service provider on a daily basis. In order to avoid wastages, the number of meals ordered is to be based, as far as possible, on the actual daily consumption, thus excluding the number of persons recovering in hospitals.

Errors noted on Sales Orders and Invoices prepared by Supplier

The officers certifying the Delivery Notes should ascertain that these reflect the correct number of meals that have been actually delivered. It is to be made clear to all officers that when endorsing a document and/or certifying the Delivery Notes as correct, 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. Moreover, DS are to carry out the necessary verification prior to requesting AFM to effect payment. Furthermore, any overpayments are to be recouped.

No Deductions made to the Per Diem Allowance paid to Asylum Seekers provided with Free Meals

Management is to take into consideration the free meals distributed to TCNs when calculating the daily allowance granted to these individuals.

Furthermore, the Open Centres are to cease providing meals to non-residents with immediate effect and reduce meals orders accordingly.

Personal Care Products distributed to Irregular Immigrants at Closed Centres

Inconsistency in the Distribution of Personal Care Products

The requirements of the basic necessities are to be established and a list with the respective quantities duly formalised. This will enable consistency between one location and another as well as transparency of stock management.

Shortcomings in managing Stocks

For better control and minimisation of wastages, Management is to ensure that provisions are distributed as officially stipulated, given that a proper exercise indicating the requirements has been carried out. Furthermore, better control on stock management is expected.

Food Provision allowed to Maritime Squadron

Lack of Control on Provisions consumed by the Maritime Squadron

Management is to refrain from supplying the provision of ration when the requested statements are not provided.

Procured Ration exceeding the Established Entitlements

Ceilings established by AFM are to be strictly adhered to. Controls should also be established to ensure that, in future, action is taken when budget entitlement is exceeded.

Phone Cards

Lack of Official Source Documentation

Written formal approval is to be sought to cover the expenditure on phone cards.

No Records held in respect of Phone Cards distributed to Irregular Immigrants

Proper stock records of the phone cards are to be kept, in line with the pertinent regulations, clearly showing both receipts and issues thereof for audit trail purposes. Phone cards distributed are to be acknowledged by the recipient's signature.

Inventory

Lack of Responsibility

Management is to take up ownership of all the assets assigned for the sole use of DS, account for them accordingly, and ensure that regulations established to safeguard such items are rigidly adhered to.

Inventory Records not compiled

DS is to properly identify all assets located in the various CDCs and its offices in order to compile a reliable and complete database as stipulated in the relevant Circular. Each Centre is to be identified with a unique 'Department Description' reference. Furthermore, all assets should also have a unique AIN as described in 'Appendix A' of the same Circular.

Assets not marked with an Asset Identification Number

Adherence to inventory control procedures is recommended. This entails physically marking items with a permanent identification number, as far as it is practicable to do so.

Room Inventory Lists not Evident

In line with MF Circular No. 14/99, room inventory lists are to be produced and hung in the respective rooms.

Furthermore, these are to be duly amended whenever items are transferred to/from other rooms.

Other Matters

Deadlines not met leading to the Ineligibility of EU Funds

When analysing requirements before a call for tender/ quotation is issued, one is to ensure that all the necessary tasks are included so as to avoid unnecessary administrative work. This is even more important for EU funded projects required to be completed by an established deadline.

Abandoned Contract by the Supplier

Legal action is to be initiated against the foregoing supplier, so that extra costs incurred due to non-compliance could be recouped. Moreover, the Department is to request an adequate compensation from the supplier.

Penalties for Late Delivery of Procured Supplies not imposed

Management is to penalize those suppliers who do not abide by the agreed terms, unless reasonably justified.

It is important that in cases where there is a delay in the delivery of the goods, the Bank Guarantee is extended in due time prior to its expiration. 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.

Shortcomings in Hiring of Closed Skips on Wheels

All decisions are to be well documented and filed for future reference. Invoices submitted by the supplier are to be thoroughly validated against the agreed contract rates prior to issue of payment. Moreover, the Bank Guarantees are to be valid throughout the whole period contract.

Procurement of Plastic Egg Trays on behalf of the Contractor

Proper justification is to be provided in support of amounts expensed from public funds. In such absence, requisition for purchase is not to be honoured.

Invoices issued prior to the Goods and Services Purchase Order

GSPOs are to be invariably raised prior to the placing of orders for goods or services with the supplier, so as to ensure that adequate authorisation is sought from the right level of authority, prior to the procurement of the requested items.

Misallocation of Funds

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 besides not giving an accurate picture of the actual expenditure incurred under that particular line item.

Compliance Issues

Statutory Returns not submitted to NAO

Management is to ensure that the officer entrusted with the responsibility for maintaining the inventory records is aware of such requirements and that the relevant returns are regularly forwarded to NAO in due time.

Non-Compliance with VAT Legislation

Heads of Departments are to ensure that all suppliers, who have received payments, even in part, for goods and services provided, adhere to the VAT Regulations by being furnished with a tax invoice or fiscal receipt, as applicable.

Procurement of Materials and Supplies not as per Period Contracts

Management has to ascertain that, where applicable, they only use those suppliers that were awarded the particular tender contract. Furthermore, when items are not covered by a period contract, one is encouraged to obtain quotations from various suppliers prior to purchase, so as to ensure that the most advantageous quote is selected.

Management Comments

Management concurred with a number of observations and has taken remedial action to implement most of NAO's recommendations whilst others will be taken on board in due course.

However, as regards meals ordered for irregular immigrants recovered in hospitals, DS still contended that they are not alerted by hospitals when individuals are returned to detention. Consequently, orders with the catering contractor will continue to be placed according to the number of irregular immigrants accounted for by the respective Detention Centres.

DS also alleged that the expenditure on plastic egg trays was made following a complaint received from the supplier that certain trays were mislaid or not returned.

Ministry of Foreign Affairs

Maltese Embassy in The Hague

Background

The Mission at The Hague is relatively small in size, with two Malta Based Officers (MBOs), bearing the grades of Ambassador and First Secretary respectively, and three Locally Engaged Personnel (LEPs). The Head of Mission (HOM) together with the other MBO, provide leadership and resource management to the Mission, while other day-to-day matters and support services are mainly dealt with by the LEPs.

In addition to promoting Malta in the Netherlands, the Embassy provides various consular services. The Mission also issues pension payments to eligible individuals on behalf of the Maltese Department of Social Security (DSS).

The Embassy's budget for 2010 amounted to €392,800, with €210,200 allocated for Personal Emoluments and €182,600 for Operational and Maintenance Expenses. Actual expenditure during 2010 amounted to €355,511[1]. The largest expense incurred by the Mission, totalling €137,444[1], was rent paid to third parties. This was followed by another substantial expenditure for basic Staff Salaries and Wages amounting to €126,663, excluding bonus and allowances, amounting to an additional €61,717. The Mission exceeded the original budget allocated for basic Staff Salaries and Wages by €35,563, however it respected the overall budget allocation for all recurrent expenditure.

Income received by the Mission during 2010 amounted to €25,615. Only €1,985 of this amount was generated from consular services, comprising passports, Visas and legalisation of documents. The balance related to refunds received by the Mission, covering mainly VAT, service charges and a recouped overpayment.

The Chancery, as well as the Ambassador's residence, are leased from third parties. In July 2010, the Ambassador entered into an agreement covering the lease of a new residence for five years, with a substantially lower rental charge. The lease covering the Chancery was entered into on 1 August 2007 and expires on 30 July 2017.

Audit Scope and Methodology

The main objectives of the audit were to ensure efficient administration of public funds, in line with standing laws, regulations, policies and procedures, and to ascertain that resources are being used judiciously. Other aims were to assess the reliability and adequacy of information available for decision-making and accountability purposes, and to make recommendations, where warranted.

The focus and extent of the audit work was based on an assessment of materiality and related risk. This was achieved mainly through a review of the monthly accounts and other documentation submitted by the Mission to Head Office (HO), review of registry files, communication with HO, mostly through the Desk Officer responsible for the particular Mission, and an analysis of recurring trends and issues.

Audit Disclaimer

Inventory Items

Since no physical inspection was carried out on location, checking of proper inventory management and recording as well as of cash-in-hand reporting could not be carried out.

[1] Amount represents only expenditure charged to the recurrent Line Item. The refundable tax element was charged to the VAT Below-the-Line Accounts 82028520 and 82058520 amounting to €10,473 and €2,574 respectively in 2010.

Key Issues

Limitation of Scope due to lack of documentation at Head Office and/or at the Embassy

In a number of areas highlighted hereunder, testing and verifications from HO premises were limited, due to the fact that source documentation was not available or was only kept at the Mission. As a result, correctness of payments made by the Mission and compliance with standing rules and regulations could not be ascertained.

Invoices and General Expenses

- Where available, invoices and other documentation attached to payments for general expenses were in Dutch, with no translation of the relevant documents.

- Copies of the requests for VAT refund raised by the Mission were not kept by HO.

Salaries

- Time sheets validating claimed hours worked by the housekeeper and temporary secretary, both paid on an hourly basis, were not provided.

Rent

- With the exception of an invoice submitted, indicating the new rent payment, no other invoices/receipts substantiated payments for rent in respect of the Official Residence.

- No breakdown of service charges due by the Mission, validating respective payments and adjusting refund.

- No documentation indicating applicable increases in rent, as per Article 7 of the rental agreement, for the former official residence.

- General Terms and Conditions mentioned in the Chancery rent contract not available.

Inventory Items

- No inventory list of items provided by lessor under ‘Furnishings, Fixtures and Fittings, as well as appliances’.

- Personal items owned by the Ambassador not separately identifiable.

Revenue

- In line with Internal Office Circular No. 01/2009, the Mission is required to fill in a ‘Request for Services Form’ to substantiate revenue collected. However, the examiners could not identify whether these were being filled in since they were not being submitted to HO with the monthly accounts. As a result, completeness of revenue, particularly that arising from legalisations, could not be ascertained. Furthermore, compliance with Article 2 regulating ‘Procurement Issues’ of the same circular could also not be ensured.

Transport

- No log books for car mileage were available to ascertain proper control on fuel intake.

Control Issues

Opportunities for improvement were identified in the following areas:

Rent

No documentation supporting Rent Payments

No invoices and/or receipts were made available, supporting the rent payments for the Official Residence. Payments were effected directly through bank transfer and the only documentation traced in support of this expense were the Payment Vouchers (PVs). This concern applies to payments covering both the new as well as the former residence of the Ambassador.

Undocumented increase of Rent for Official Residence

Article 7 of the agreement for the former residence stipulated that the rent shall be adjusted every January on the basis of the consumer price index as published by the Central Bureau of Statistics. As a result, from €7,351 in September 2006, the monthly rate increased to €7,720 by 2010, i.e. more than 5%. No documentation was available to show the quantum of the applicable yearly increases.

No Refund of Deposit paid as Guarantee under the Tenancy Agreement

As per Article 3 of the Tenancy agreement, covering the rent of the residence, the Mission paid a deposit serving as guarantee for the fulfilment of its obligations.

Notwithstanding that the contract was terminated in July 2010 and this deposit, up to an amount of €7,351 was to be refunded to the lessee within two months of this termination, no documentation was traced indicating such refund, at least up till mid-March 2011 during the conduct of the audit.

Service Charges

No Proper Reconciliation for Service Charges

In January 2010, the Mission paid an invoice dated 4 December 2009 amounting to €4,569, being settlement for 2008 service charges. This invoice was in Dutch and consequently the basis of the figure charged to the Mission could not be determined, and its correctness could not be ascertained.

Furthermore, in April 2010, the Mission received a refund of €1,606. This was also an adjustment related to the 2008 service costs, namely the cleaning expenses. However, due to the lack of documentation enabling appropriate audit trail, it could not be ascertained that the amount refunded is correct.

Missing Appendices to the Tenancy Agreement

The General Conditions mentioned in the Chancery rental agreement stipulate the amount due by the lessee for additional supplies and services, and the applicable system of advance payments adjusted retrospectively. Notwithstanding this, these conditions were not attached to the contract provided for audit purposes. As a result, it could not be ascertained that the quarterly rate of €1,050 paid by the Mission in respect of service charges is in line with the provisions of Article 16 of the said Conditions.

LEPs Salaries and Wages

Overpayment to Driver

During the period under review, it was noted that the driver was paid an additional increment over and above his entitlement stipulated in his official contract. As a result, even the 8% holiday bonus paid to this LEP was in excess of what he was due.

Unexplained Computation of Personal Assistant's Salary

The monthly net pay of the Personal Assistant (PA) to the Ambassador was being computed by a Dutch private firm since the Ministry of Foreign Affairs (MFA) claimed that *"… the Dutch law is very complicated when calculating the tax and SSC…… ".*

The records provided by this private company, showing the computations, are in Dutch, thus hindering verifications by MBOs, Desk Officers and other third parties, including external auditors. The Desk Officer further confirmed that she relies on the calculations provided by the company.

Income Tax and Social Security Contributions paid by the Mission on behalf of the Personal Assistant

According to the 'Protocol Guide for Diplomatic Missions and Consular Posts' issued in 2008, the PA was responsible for paying income tax and social security contributions herself. However, during 2010 the Mission paid the amount of €18,749 to the pertinent authorities on her behalf, of which €6,313, were paid out of public funds. Since documentation available was in Dutch, it could not be confirmed that the foregoing amount related to the employer's share of contributions and whether this was to be borne by the Mission.

Given that total reliance was being placed on computations by the private firm, correctness of the amount paid to the pertinent authorities from public funds could also not be ascertained.

Full Basic Salary paid during Long-term Sick Leave

In May 2010, the PA, the only Dutch speaking officer at the Mission, went out on sick leave. On 14 June 2010, she informed the Ambassador that her recovery period will take a considerable amount of time, and in fact, as at 31 December 2010, she was still on sick leave.

The Ambassador informed HO that the Mission will continue paying this LEP her full salary until otherwise instructed. Following HO's advice, the allowance of €250 was stopped, but the full monthly salary of €3,012 was still paid.

According to online information obtained from the Netherlands' Ministry of Social Affairs and Employment website, the employer in this case the Mission, was not bound to pay the officer the full salary. In line with Dutch law, the PA was entitled to at least 70% of the wage, but not less than the minimum wage. As a result, it can be concluded that, for the seven-month sick leave period from June 2010 onwards, this LEP was paid an amount of €6,325 more than the minimum established by law.

Potential Irregular Conditions of Employment of Housekeeper

From documentation traced during the audit, it was noted that the employment contract entered into by the housekeeper and the Mission was only signed to satisfy Dutch regulations. As a matter of fact, the rates paid to the housekeeper differed from those stipulated in the said contract.

The employment was actually regulated by a statement of undertaking endorsed by the employee in 2005, declaring that the LEP will be working on a part-time basis and shall be paid on an hourly basis, while the official contract stipulated a monthly salary of €1,500.

Notwithstanding that the Mission alleged that the housekeeper's position has been now regularised, up to the date of the audit, a new contract signed by both this LEP and the Embassy, was not provided.

Payments to Housekeeper and Temporary Secretary not adequately substantiated

Housekeeper

Up to October 2010, the only documentation traced with respect to the housekeeper's salary were the PVs, with no supporting documentation to back up the expense.

From October onwards, in addition to the monthly PV, a statement indicating the hours worked by the housekeeper was included. However, supporting attendance sheets were not forwarded to HO. As a result, total reliance had to be placed on the returns submitted by the Mission indicating the aggregate number of hours worked by the housekeeper.

Temporary Secretary

As from June 2010, the Embassy started using the sub-contracting services of a temporary secretary, to replace the PA who was on long sick leave. Timesheets were not attached to the PV in support of the actual payment made by the Embassy. The expenditure was only backed up by the respective invoice.

Travel

Home Leave

Home Leave for the First Secretary fell due in March 2010. However, such entitlement was not availed of in this stipulated period but the officer travelled to Malta between 1st and 6th September 2010, when he was acting as *Charge d'Affaires*, since the Ambassador's term had expired. In the temporary absence of the First Secretary, the Mission was left without any MBO managing the Embassy and with no full time administrative staff, as the only LEP covering this area, namely the PA, was still on sick leave.

Shortcomings in connection with Refunds for Flight Tickets

Three amounts in aggregate totalling €1,223 were refunded to an MBO in 2010 to cover purchases for air tickets in connection with three visits on official duty to Malta, undertaken in 2008 and 2009.

No copies of actual air tickets, boarding cards, agendas related to the official visit and/or respective receipts were traced in support of the payments issued to this MBO. The only documentation traced consisted of an invoice, in respect of two of the payments, collectively amounting to €1,034.

The other payment of €189 was only supported by an e-ticket booking confirmation, totalling €224. Although the officer was posted in The Hague, this document indicated that the flight was from Brussels to Malta. Consequently, it could not be ascertained that this booking, in support of the foregoing payment, relates to the same visit for which the refund was effected.

Moreover, notwithstanding the fact that this MBO has been occupying the post in The Hague since September 2006, the two invoices traced, covering the payments of €374 and €660, raised on 28 June 2008 and 6 November 2008 respectively, were paid during the year under review and were addressed to the Embassy of Malta in Brussels. When queried about the matter, the Mission replied that *'Air Malta made a mistake and debited the invoices to Brussels'*. Due to time constraints during the audit, only the 2010 monthly accounts were scrutinised. As a result, it could not be ascertained whether the refunds for the actual ticket costs, were paid in prior periods as well.

Furthermore, no endorsements were noted on the invoices and claims, certifying their correctness.

Revenue

Lack of Audit Trail

A number of manual Embassies' Cash Books reviewed in previous years included details such as Passport number, Visa number, *etc.*, enabling reconciliation with source documents. These details are not included in The Hague's new 'Embassies and Missions Cash Management System' (ECMS) Cashbook, thus hindering the necessary reconciliations.

In a number of instances, no cross reference to receipt number was indicated when revenue was received by the Mission. It transpired that when individuals pay directly through the bank, proper receipts are not issued, only having the Bank Statement serving as an indication of receipt of payment.

As a result, due to the lack of audit trail, completeness of revenue in the year under review could not be warranted.

Lack or Limited Documentation accompanying Refunds

Correctness of refunds received by the Mission during 2010, mainly relating to VAT and Service Charges, amounting to €11,673, could not be ascertained due to insufficient documentation.

VAT Refunds not reconciled

It was noted that VAT refunded was not being reconciled by MFA. The only VAT refund of €7,759 received in 2010, according to the Dutch supporting documentation from the tax authorities, covered a six-month period July to December 2009. Since this refund was not covered by the respective claim, it could not be ascertained whether the actual amount refunded tallied with the amount claimed for the same period.

An amount of €7,192 was paid as VAT during the period January to June 2010 by the Mission. However, according to additional documentation submitted to HO with the February 2011 accounts, it transpired that the refund received for the same period amounted to €7,858. In the circumstances, it could not be established on what basis the amount was claimed.

Inventory

Personal Items and Items owned by Lessor not separately identifiable

From an analysis of the inventory databases relating to 2009 and 2010, made available during the audit, it was noted that:

a) no record is available showing the personal items owned by the Ambassador located on 'public property', making these items identifiable from Government owned assets;

b) even though the Mission is paying a monthly amount of €450 for furnishings, fixtures, fittings and appliances in respect of the Ambassador's official residence, no record was available at HO indicating these items and marked as 'Owned by lessor'; and

c) in the absence of such records, a reconciliation of inventory items would not be possible if these had to be physically checked.

Item not Recorded in Inventory

A portable hard drive acquired during the year under review was not traced in the inventory database provided by HO. Though the value of the item was less than the amount of €116.47 stipulated in the applicable Circular, for recognition purposes, it was noted that items of a much lower value were included in this database.

Other Matters

Social Security Benefits to Deceased Pensioner

A deceased person living in the Netherlands continued to receive his pension payments for over two years following his death on 1 February 2008. According to the Mission's calculation up to August 2010 this amounted to €11,053. It transpired that the son of this pensioner, who was taking care of the latter's estate, failed to inform the Mission of his father's demise. The amount paid was then only requested from the heirs and duly refunded back to the Mission by end October 2010, following a declaration by one of his daughters admitting this irregularity.

Furthermore, notwithstanding that the Mission was informed about the decease of this individual in May 2010, bi-monthly pension payments addressed to this late individual were still issued in June and August respectively.

Reimbursement of Medical Expenses

During the year under review, a total of €25,695 was reimbursed to the two MBOs in The Hague covering medical expenses, 78% of which were reimbursed to one of the MBOs.

An amount of €4,981 from the said total was refunded to the other MBO. This was covered by a note from the Permanent Secretary, indicating that she confirmed with the Health authorities that the treatment given falls within the healthcare package of services available in Malta, thus certifying that the amount is refundable. However, as stated, due to the confidential nature, no evidence in writing was traced from the Health authorities.

Compliance Issues

Amounts not remitted to Bank

The amount of €1,215 generated from consular services in 2010 was received in cash and was not remitted to bank. This goes against the provisions of Article 36 of the General Financial Regulations (GFRs), stipulating that "*all collections, however small, shall be paid into an authorised bank or Treasury every Friday and on the last working day of the month*."

Inventory Return not submitted

MFA failed to comply with MF Circular No. 14/99 for the submission of a consolidated inventory return to NAO. This return was also not submitted by the Mission in The Hague.

Recommendations

Control Issues

Rent

No documentation supporting Rent Payments

The Mission is to request the lessor to submit an invoice indicating the amount applicable. The invoice is to be attached to the PV, enabling verification without the need for any reference to other documents.

Undocumented increase of Rent for Official Residence

Any applicable increases are to be properly documented, to enable independent verification in line with the provisions of Article 52(2) of the GFR. All relevant documentation is to be kept on file for future reference.

No Refund of Deposit paid as Guarantee under the Tenancy Agreement

Immediate action is to be taken to recoup the amounts due.

Service Charges

No Proper Reconciliation for Service Charges

The Mission is to ensure that all claims for service charges or refunds thereof are supported by adequate documentation enabling full verifications.

Proper internal controls are to be implemented. 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, is correct. Unless adequate checks are carried out, no certification is to be endorsed, and no payments are to be effected.

Missing Appendices to the Tenancy Agreement

The Desk Officer is to ensure that complete documentation is submitted to HO, enabling proper verifications by internal and external officers.

LEPs Salaries and Wages

Overpayment to Driver

Unless documented and duly approved, agreed official contract terms should apply.

Unexplained Computation of Personal Assistant's Salary

The Mission is to make sure that important documents are translated in English. This will enable the MBOs to understand the workings performed by the private firm, and eventually the Mission is to actively consider doing without their services, if the salary computation is relatively standard from one month to another.

Income Tax and Social Security Contributions paid by the Mission on behalf of the Personal Assistant

The Mission may consider clarifying the issues on Income Tax and Social Security matters with the respective authorities in the Netherlands. This will enable MFA to check the figures submitted by the private firm and possibly eliminating the need of this firm in due course.

Full Basic Salary paid during Long-term Sick Leave

Full reliance on one party hinders effective controls. Guidance is nowadays easily accessible online, which can also be confirmed by the respective authorities. Furthermore, any discrepancies are to be analysed in a timely manner.

Potential Irregular Conditions of Employment of Housekeeper

A new contract of employment, in compliance with the Post's rules and procedures, is to be duly prepared and signed by both the employer and employee, stating the current terms of employment of the latter.

Payments to Housekeeper and Temporary Secretary not adequately substantiated

Where possible, full documentation enabling sufficient audit trail is to be attached to the PV. Attendance records and other supporting documentation may be scanned and submitted electronically to HO. These will enable the

Desk Officer to adequately verify payments effected. A soft copy is also to be saved and made available to NAO for audit purposes, if and when requested.

Travel

Home Leave

The Mission is to try to avoid circumstances where it is left without the presence of an MBO. Furthermore, prior to granting approval, it is to be ensured that an adequate replacement is available, to ensure continuous efficiency of the Mission during the absence of the Officer.

Shortcomings in connection with Refunds for Flight Tickets

Payments are to be substantiated by adequate documentation, enabling full audit trail and independent verifications by third parties.

Prior to effecting payment, claims and invoices are to be thoroughly checked. Only after proper verifications have been carried out, should payments be issued. Officers, whose responsibility is to carry out these checks, are to endorse the documents as evidence of verification.

Furthermore, only invoices clearly addressed to the Mission are to be accepted and processed for payment. It is also to be ensured that requests for refunds and payment of the same claims are effected in a timely manner, ideally within the same financial year in which they are incurred.

Revenue

Lack of Audit Trail

The Mission is to include all relevant details in its records, particularly those for consular revenue generated, enabling independent reconciliations and verifications by third parties.

Receipts are to be given in respect of all income received by the Mission. These are to be issued in duplicate, the original to be given to the client, while the copy is to be retained by the Mission for record as well as for audit purposes.

Lack or Limited Documentation accompanying Refunds

Where possible, the Mission is to ensure that refunds are adequately supported by relevant documentation, enabling full audit trail and independent verification.

VAT Refunds not reconciled

A proper register of VAT refund applications is to be maintained, whereby track is kept of successful applications. An indication of the reason for rejection is to be given on this register, where applicable. Furthermore, a proper reconciliation is to be carried out to ensure that the correct VAT amount is recouped.

Inventory

Personal Items and Items owned by Lessor not separately identifiable

A separate list is to be drawn up of those inventory items purchased personally by the Ambassador, or brought over during his term in the Post country. In addition, since the lessor is supplying certain items of furniture and fittings in the Official Residence, a separate list is to be drawn up, specifying these assets.

A person carrying out a physical check at the Official Residence should easily identify those items pertaining to the Government of Malta, from those owned by the lessor and those that belong to the Ambassador, by checking with the official inventory database as necessary.

Item not Recorded in Inventory

The Mission is to ensure that it has specific procedures to control and monitor items of inventory costing less than €116.47 each which, in aggregate, could be of substantial value.

Other Matters

Social Security Benefits to Deceased Pensioner

Checks with the Social Security institutions of the country of Post are to be carried out on a regular basis so that any irregular payments may be detected in a timely manner.

Reimbursement of Medical Expenses

Though MBOs are entitled to the reimbursement of medical expenses, these are paid out of taxpayers' monies. Thus, it is expected that action is taken to keep these costs at a minimum.

MBOs are to be instructed that as much as possible, a state hospital is to be used whenever they require medical care. MBOs employed within the EU may very often be eligible to free or reduced-cost emergency medical treatment during their tour of duty in Member States. MFA is also to consider covering MBOs with a health insurance where agreement with particular Member States or any other country does not adequately cover Maltese MBOs.

Compliance Issues

Amounts not remitted to Bank

All funds received are to be banked intact and withdrawals effected only when cash is needed. The administration of a standard Imprest system is recommended for petty cash expenses.

Inventory Return not submitted

MF Circular No. 14/99 is to be adhered to, ensuring that more effective control is maintained over the Embassies' assets.

The Officer at MFA responsible for inventory is to ensure that HO and all the Missions' records are received in time and are thoroughly checked to identify any incorrect entries.

Management Comments

Management concurred with a number of observations and most of the related recommendations will be taken on board. The only issue that was not addressed was the payment of Income Tax and Social Security Contributions paid by the Mission on behalf of the PA. The following comments and reservations were also submitted:

- Although Chancery rent payments were covered by the relevant invoices, the Mission maintained that it is not the practice in the Netherlands to issue receipts and/or invoices for rent payments to the lessor, also stating that the bank statements are proof of receipt.

- HO pointed out that the deposit paid was not recouped because the Embassy and the landlord have some pending issues relating to repair works which have to be carried out. However, the Ambassador stated that the Mission will look into the matter with the owner of the former official residence, provided that it will not be necessary to engage the services of any lawyers/accountants to recoup the funds involved.

- With regards to the overpayment effected to the driver, MFA replied that HO noted the difference between the contract and the actual payment in 2009 and recommended that the situation is rectified when a new contract is entered into. On the other hand, the then First Secretary stated that this change was initially effected in 2008, however no formal documentation was provided.

- It is the practice in the Netherlands to use the services of an accountancy and tax firm in view of the complicated salary workings. The amount paid to the Dutch private firm for the calculation of the salary is a small amount when compared to the high fine the Embassy would pay if the incorrect amount of income tax and social security contributions is paid. Furthermore, the Embassy stated that it is not in a position to translate certain technical wording in the documents unless the Ministry wishes to employ a translator.

- As for the sick leave payments to the PA, the Embassy claimed that when an employee is on a fixed term contract and the full salary is not paid till the end of the contract, there is the likelihood of costly litigation which would be higher than any savings made in paying a lower sick leave benefit. Thus, it was felt that it would be safer and potentially less costly to opt to pay the full basic salary till the end of the contract.

- As to the situation of the housekeeper, the Mission indicated that it tried to remedy the employee's position by making the necessary financial provisions, but was verbally advised by the then DCS that no funds were available.

- In respect of the flights departing from Brussels, the Mission stated that this is sometimes preferable since the driving time from The Hague to Brussels is not much more than the 45 minute drive from The Hague to Amsterdam.

- MFA remarked that they have been exploring possibilities to minimise the medical expenses claimed by MBOs. The Ministry sought quotes from private insurance companies to pursue the best way forward in this matter. However, it was also claimed that MFA lacks the resources to conclude this exercise.

- MFA confirmed that not all refunds are supported by a document, and that it is not the first time that a refund made by a company to the Embassy is done by a bank transfer and the details are only reflected in the bank statement.

Maltese Embassy in Lisbon

Background

The Mission in Lisbon is a relatively small one, with two Malta Based Officers (MBOs), bearing the grades of Ambassador and First Secretary respectively, and three Locally Engaged Personnel (LEPs). The Head of Mission (HOM) and the other MBO, provide leadership and resource management to the Embassy, while other day-to-day matters and support services are mainly dealt with by LEPs.

In addition to promoting Maltese interests in Portugal, the Embassy provides various consular services. The Embassy also issues pension payments to eligible individuals on behalf of the Maltese Social Security Department.

The Embassy's budget for 2010 amounted to €308,500, with €164,900 allocated for Personal Emoluments and €143,600 for Operational and Maintenance Expenses. Actual total expenditure for 2010 amounted to €294,499[1]. The largest expense incurred by the Mission, totalling €123,444[1], was rent followed by basic staff salaries and wages totalling €78,546 (excluding bonus and allowances amounting to an additional €70,577). The Mission exceeded the budget allocated for basic staff salaries by €18,346, but the overall budget allocation was respected.

Income received by the Mission, during the year under review, amounted to €11,776, but only €395 of this amount was generated from consular services, comprising passports, Visas and legalisation of documents. The remaining balance of €11,381 was made up of a number of refunds received during the year.

Audit Scope and Methodology

The main objectives of the audit were to ensure efficient administration of public funds, in line with standing laws, regulations, policies and procedures, and to ascertain that resources are being used judiciously. Other aims were to assess the reliability and adequacy of information available for decision-making and accountability purposes, and make recommendations, where warranted, to improve the Mission's operations.

The focus and extent of audit work was based on an assessment of materiality and related risk. This was achieved mainly through a review of the monthly accounts and other Mission documentation submitted to Head Office (HO), review of registry files, communication with HO, mostly through the Desk Officer responsible for the particular Mission, and an analysis of recurring trends and issues.

During the assignment, audit concerns were further refined on the basis of information gathered through interviews with staff at HO, as well as explanations sought from Mission staff and other documentation obtained.

Audit Disclaimer

Inventory Items

Since no physical inspection was carried out at the Embassy, no checking of inventory items against inventory database and vice-versa could be carried out.

[1] Amount represents only net expenditure charged to the recurrent Line Item. The refundable tax element was charged to the VAT Below-the-Line Account 82028520 amounting to €10,423 in 2010.

It could likewise not be ascertained that the amount of cash-in-hand reported in the Cash Book tallies with the actual amount of cash available.

Key Issue

Limitation of Scope due to lack of documentation at Head Office and/or at the Embassy

As explained further hereunder, testing and verifications were limited, due to the fact that source documentation was not available, or is kept only at the Mission. As a result, correctness of payments made by the Mission, and compliance with standing rules and regulations could not be ascertained. Areas hindering verifications include:

Rent

- Terms and conditions fixed by the condominium assembly, *vis-à-vis* the condominium charges as stipulated in the Chancery lease agreement, were not provided by HO.

Revenue

- No 'Request for Services Form' was submitted with the monthly accounts. Thus, it could not be ascertained whether this form is being filled, in line with MFA Internal Office Circular No. 01/2009. As a result, completeness of revenue, particularly that arising from legalisation of documents, could not be ascertained. Furthermore, compliance with Article 2 of the same Circular could also not be ensured.

Control Issues

Rent

Formal Extension of Lease for Rent of Official Residence not evidenced

The Ambassador's Official Residence was leased in August 2006 for a period not exceeding three years, expiring on 31 July 2009, for a monthly charge of €5,500. However, until December 2010, the Ambassador was still residing in the same residence, by which time the monthly charge had increased to €5,975, following annual reviews in connection with the provisions of the Civil Code. Neither were formal extensions to the contract traced, nor was HO approval filed, authorising the additional period to the lease.

Service Charges

Lack of Knowledge and Documentation in respect of Condominium Payments

The terms and conditions fixed by the condominium assembly of the Chancery were not available at HO. As a result, it could not be determined how the condominium charges system operates. Following various queries by the National Audit Office (NAO), and subsequent correspondence exchanged between the Mission and the private company in charge of the condominium payments, it was claimed by the latter that *"The service charges budget is presented annually to the landlords and is approved by them. Then it is charged to the tenants according to the % occupied by each."*

Furthermore, apart from the monthly invoices attached to the Payment Vouchers (PVs), no other documentation was traced in support of the condominium payments. In reply to NAO's queries as to how the actual amount paid by the Mission was determined, the latter only submitted to the NAO a breakdown of condominium expenses relating to 2009, provided by the private company responsible for the Condominium charges. However, correctness of rates included therein could not be ascertained as the actual expenses were not substantiated.

Uncertified and Unsubstantiated Claims for Payment in connection with Condominium Electricity Charges

A claim was raised by the private company in charge of the condominium requesting payment from the Mission for condominium electricity consumption in respect of the period covering January to June 2010. This claim featured only the amount due, without any indication of the total bill for the entire common area, and the amount of kilowatts consumed by the Mission during the period, thus hindering any form of verification.

The Mission stated that, during 2010, each tenant within the premises was fitted with its own condominium meter and was responsible for its electricity consumption. It was alleged that from there on, the condominium Security Officer took meter readings once a month, while the Embassy staff reconciled with their own readings to ensure accuracy of actual consumption involved. However, the Embassy did not provide evidence of such certification. Consequently, accuracy of amounts claimed still could not be ascertained.

Salaries and Wages

Expired Contracts

The two contracts covering the employment of the Personal Assistant (PA) and the driver were both entered into in late 2006 and expired in 2007. Though it was confirmed to NAO that the employees are now employed on a permanent basis, this was not reflected in their employment contracts provided for audit purposes.

Overpayments to Locally Engaged Personnel

Holiday and Christmas Bonuses

In Lisbon, in addition to the salary, full-time LEPs are also entitled to receive annually a holiday bonus in June and a Christmas bonus in December, each equivalent to one month's salary. It was noted that the two bonuses paid to these employees were based on the basic salary including the monthly allowances, even though the Portuguese law mentions only the monthly salary. As a result, the amount of €1,042 is considered to have been overpaid during the year under review.

Meals and Transportation Allowance

Notwithstanding that an amount of €210 was clearly stipulated in the employee's contract, the actual monthly allowance paid to the PA amounted to €241. Following NAO's queries, the Mission asked the PA to provide written evidence of the approval authorising the increase in the allowance. The latter stated that it was verbally agreed during the interview that her monthly 'take home salary' was fixed at €1000 per month.

Moreover, reliance was being placed on the amounts computed by the LEP to whom the same allowances were issued. No independent verifications were being carried out prior to effecting payment.

During the audit, the Ministry of Foreign Affairs (MFA) instructed the Embassy to issue the salary as stipulated in the contract. However, the LEP contested this reduction by sending a registered letter to the Embassy claiming non-compliance with the Labour Code.

Overstated gross salary and undeclared allowance

During 2010, the driver was paid a basic monthly salary of €849 rather than the €787 as stipulated in the agreement. No documentation was traced substantiating this increase. Although the allowance in lieu of overtime featured in the LEP's payslip, it was not amalgamated with the basic salary in calculating the income tax due.

Hours worked by Cleaner not certified for correctness

In a number of instances, the sheet prepared by the PA, indicating the number of hours worked by the cleaner, was not endorsed by the Embassy certifying its correctness.

Inventory

Limited Records for Personal Items

Following NAO's request, a list of the Ambassador's personal items located on 'public' property as at April 2009 was obtained. However, the list included only bed linen, and as a result its completeness is questionable.

Assets not assigned a Unique Asset Identification Code

A number of items in the inventory database were referenced with the same Asset Identification code. Part numbers were also not given in case of homogenous items.

Differences between current and prior year Inventory Records

A number of differences were noted between the inventory database provided as at end 2010 and that of the preceding year.

a) Several inventory items, in total amounting to at least €1,524, which were showing in the database for 2009, did not feature in the records for the subsequent year. Only a couple of items, in aggregate worth €127, were marked as 'Missing items', with the remaining balance unaccounted for.

b) A total of €5,992 of inventory items acquired in prior periods between 2000 and 2009 featured in the database as at end 2010, but were not included in prior year's records.

c) A number of inventory items were, in aggregate valued at €352 in 2009. However, the value of these same assets totalled €3,793 for the year under review. In certain cases, this was also reflected by an increase in the quantity of items notwithstanding that the same acquisition date as well as the same Asset Identification code was retained.

Travel

Lack of documentation substantiating air tickets

At least in two instances, no copies of actual air tickets, e-tickets or boarding cards, were traced in support of the reimbursement to MBOs covering the purchase of two air tickets to Malta, in aggregate amounting to €851.

Other Matters

Shortcomings in VAT Records

The following shortcomings in Value Added Tax (VAT) records were noted:

- No documentation from the Lisbon tax authorities was available in the files supporting the monthly VAT refunds. Thus, the amounts refunded to the Mission, totalling to €10,856 for the year under review, as shown in the monthly VAT Control Register maintained by the Embassy on a spreadsheet, could not be traced to third party evidence. As a result, correctness of refunds could not be ascertained.

- The total VAT balance for 2010 in the Departmental Accounting System (DAS) did not fully reconcile with the amount recorded in the VAT Register maintained by the Embassy.

Compliance Issues

Inventory Return not submitted

MFA failed to comply with MF Circular No. 14/99 for the submission of a consolidated inventory return to NAO. This return was also not submitted by the Mission in Lisbon.

Recommendations

Control Issues

Formal Extension of Lease for Rent of Official Residence not evidenced

Having a signed contract covering the present incumbent would be a guarantee that the property can be legally used during the lease period. Another option could be to look for alternative property. From documentation traced, it was concluded that the rent the Mission is currently paying, is one of the highest and a cheaper residence would help *"...lessen the rent element."* In these times of economic recession, the Mission may be able to get a better deal.

Service Charges

Lack of Knowledge and Documentation in respect of Condominium Payments

Ministry should ensure that all MBOs, as well as Desk Officers, are adequately trained so that they are fully aware of how the system operates. They should also be in possession of all documentation, enabling them to verify claims for such charges prior to effecting the actual payment.

It is of vital importance that MBOs attend the condominium assemblies, and where possible, verify the amounts claimed as condominium charges with the actual receipts. The Embassy should also ensure it is in receipt of the minutes of the condominium meetings.

Uncertified and Unsubstantiated Claims for Payment in connection with Condominium Electricity Charges

The Mission is to ensure that amounts claimed are fully substantiated by source documentation, and if possible, obtain copies of the actual bills for the Mission's records.

All PVs are to be accompanied by relevant documentation, showing full audit trail and enabling checks and verifications to be carried out, without the need for reference to any other documentation.

Salaries and Wages

Expired Contracts

Though many of the contractual terms of employment are already stipulated by law, the Mission is encouraged to update the employment contracts of LEPs to properly reflect their current position.

Overpayments to Locally Engaged Personnel

MBOs are to consider reviewing LEPs' employment contracts, analyse variances between contract provisions and actual payments effected, and update contracts to reflect current agreements where this is justified. Where possible, overpayments are to be recouped. It is also recommended to independently check payments thoroughly before approving them. Any approved increases are to be clearly documented, and allowed only after the appropriate HO approvals have been sought and obtained.

Action is also to be taken to ensure that LEPs' overtime is duly declared together with the basic salary, and local tax regulations are complied with.

Hours worked by Cleaner not certified for correctness

The Mission is to ascertain that effective controls are in place. Thorough independent checks are to be carried out prior to effecting payment in order to ensure correctness of amounts claimed. Officers performing such checks are to endorse the documents, in evidence of the verifications carried out.

Inventory

Limited Records for Personal Items

A record is to be drawn up of those inventory items personally belonging to the Ambassador located on 'public' property. This will enable a person carrying out a physical check at the Official Residence to easily identify Government owned items and those that belong to the Ambassador or other third parties.

Assets not assigned a Unique Asset Identification Code

All inventory items have to bear separate Asset Identification code. In compliance with MF Circular No. 14/99, only homogenous items one to be considered as the same asset, however these should be labelled using different part numbers.

Differences between current and prior year Inventory Records

The Mission is to ensure that appropriate controls are in place to safeguard all assets pertaining to the Government of Malta.

Travel

Lack of documentation substantiating air tickets

Payments are to be substantiated by adequate documentation, enabling full audit trail and independent verifications by third parties.

Other Matters

Shortcomings in VAT Records

- HO is to establish exactly on which purchases and services VAT is refundable.
- Copies of VAT claims submitted to the tax authorities should be kept on file, together with relevant documentation reflecting refunds received.
- Monthly reconciliations are to be carried out between the VAT Control Register and respective DAS account to ensure that any discrepancies between the two sets of records are identified and rectified.

Compliance Issues

Inventory Return not submitted

MF Circular No. 14/99 is to be adhered to in order to ensure that effective control is maintained over the Embassies' assets.

The Officer at MFA responsible for inventory is also to make sure that HO and the entire Missions' records are received on time and are thoroughly checked to identify any incorrect entries.

Management Comments

Management concurred with a number of observations and most of the related recommendations will be taken on board. However, the following comments and reservations were also submitted:

- Regarding the extension of the lease of the Official Residence, the Head of Mission remarked that he was advised that Portuguese law is protective of the rights of tenants. Once the landlord had accepted regular payment for a number of months after the lease expired, it was extremely difficult for the landlord to force the tenant out of the property or to unduly increase the rent.
- The Mission stated that when renting the premises, condominium charges were made known to the Ambassador's predecessor and they never felt the

need to question them, in the knowledge that if ever required, relevant information would be provided by the Condominium management company.

- The prevailing advice obtained on employment contracts was that once three years have elapsed, the employment relationship is considered *de facto* permanent and any attempts to update the contract could only open the way for further additional claims by the employee. In addition, the Head of Mission stated that it was made clear to the two LEPs that it was their duty to declare allowances in their personal annual tax return for income tax purposes.

- With respect to the overpayments in salary and allowance effected to the LEPs, legal advice was obtained by the Mission stipulating that *"an employer cannot revert a salary back to the amount initially agreed at the beginning of the employment relationship, regardless of there existing a written contract or addendum"*. As to the allowances, it was further established that *"if these amounts are granted on a regular and periodic basis and/or correspond to a reiterated practice of the employer and/or are in direct correlation with the duties performed by the employee, their qualification as non-remuneration is controversial and as such their unilateral and/ or removal may be open to challenge"*.

- In addition, the First Secretary claimed that *"Reliance was being placed on the amounts computed by the LEP, since prior to the arrival of the First Secretary, salaries were already agreed with the former Ambassador. The First Secretary's role is to follow the Ambassador's decisions"*.

- The Mission stated that a record of all claims submitted for VAT refunds and payments thereof is kept on file in the electronic account of claimants and may be consulted. Meetings were also held with the Protocol Department of the Portuguese Foreign Ministry in order to understand why there were discrepancies between what is refunded in Malta and Portugal, and to see if reciprocity could apply.

Ministry for Gozo

Ministry for Gozo
Expenditure on Services rendered

Background

The Ministry for Gozo's (MGOZ) budgetary allocation under Operational and Maintenance expenditure for Financial Year 2010 in respect of Information Services, Contractual Services and Professional Services stood at €88,000, €390,000 and €50,000 respectively. By the end of December 2010, a number of virements and warrants, totalling €68,348, increased the original budget accordingly.

The audit also comprised sample transactions from eight control accounts under the Ministry's Capital Vote and four control accounts under Programmes and Initiatives.

The actual expenditure for services rendered during 2010, inclusive of the control accounts mentioned above, amounted to €1,539,394.

Audit Scope and Methodology

The scope of the audit was to determine the level of internal controls over expenditure and to ascertain that procurement was made in accordance with standing regulations, policies and procedures.

A sample of 87 Payment Vouchers (PVs), covering €576,439[1] (37%) out of the total expenditure highlighted above, was tested.

Testing was carried out to ensure that each acquisition approved at the appropriate level of authority was covered by a duly filled-in Goods and Services Purchase Order (GSPO), completed with all the relevant details, and raised prior to the date of the invoice. Mathematical accuracy of invoices, correct incidence of charge, as well as compliance with rates quoted in tenders/quotations, were also checked.

With the aim of carrying out verifications on the process of the award of tenders and quotations to different service providers, a number of departmental files were obtained and the relevant documentation and minutes reviewed. Meetings were held, mainly in respect of expenditure related to culture, hospital waste, landscaping, engineering and other professional services.

Key Issues

Shortcomings in the Procurement of Goods and Services

Goods and services exceeding the threshold of €6,000, as highlighted under the relevant observations below, were procured direct from the open market without a public call for quotations or tenders and, on occasions, without the necessary approval from the Ministry of Finance, the Economy and Investment (MFEI).

Lack of Thorough Checking

In some cases, no thorough checking was carried out prior to disbursement of funds. Substantial monthly payments were not corroborated by additional documentation other than the invoice. As a result, the source of the rates charged could not be determined. Overpayments were also identified during the course of the audit.

Control Issues

Opportunities for improvement were identified in the following areas:

Supplier's Invoice preceding Letter of Acceptance

The supplier's invoice preceded the GSPO/Letter of Acceptance (LA) in 45 out of a sample of 87 PVs tested, collectively

[1] Expenditure was tested as follows: €305,991 on Operational and Maintenance expenditure, €186,780 on control accounts under the Capital Vote and €83,668 on control accounts under Programmes and Initiatives.

amounting to €351,404, thus bypassing the controls embedded in the Departmental Accounting System (DAS).

Laundry Services to Gozo General Hospital

Background

Koperattiva Linen Services (KOLS) was established in September 1999 with the aim of providing laundry services to hospitals. A call for tenders for laundry services was published by MGOZ, on behalf of the Gozo General Hospital (GGH), in the Government Gazette in January 2001.

The tender was not awarded to KOLS at that point since the rates were deemed to be higher than estimated. Negotiations were held between GGH and the service provider, which led to an unsigned original agreement between the two parties, initially applicable for a period of approximately six weeks only, to be renewed every month, if and when necessary. A fresh agreement was later officially signed in 2007.

KOLS continued to provide laundry services uninterruptedly. Total payments made during 2010, amounting to €248,526, covered services rendered during the period May 2009 up till May 2010.

Procurement by Direct Order

No call for tenders was made in the Government Gazette prior to the signing of the agreement between KOLS and GGH, entered into on 4 May 2007. Furthermore, no formal approval was obtained from MFEI authorising the direct order.

Official documentation was not made available, to substantiate MGOZ's allegation that KOLS is the only entity in Malta which can provide laundry services conforming to European Union (EU) directives.

Unofficial Extension of Agreement

The official agreement with KOLS expired on 31 March 2010. However, even though there was no extension clause, KOLS was automatically re-assigned the service. During the audit, payments relating to April 2010 onwards were traced in DAS, confirming that KOLS still continued to provide the service, notwithstanding the expired agreement.

Items not included in Agreement

Two items, namely pillows and bath towels, were not included in the original agreement. However, they were still being paid for by MGOZ. Different rates for these items were charged in different months.

Environmental Landscapes Consortium

Background

In response to a Call for Expression of Interest, issued by Government on 23 October 2001, the Environmental Landscapes Consortium (ELC), made up of four companies, was formed. These contractors jointly submitted a proposal which was taken up to take care of the Government's landscaping, gardening, general embellishment and maintenance functions.

Invoices lacking basis on which these were certified and paid

No documentation was traced at MGOZ, substantiating a monthly service charge amounting to €4,348 paid to ELC up to July 2010, covering the maintenance of four roundabouts. The Director Projects and Development (DPD) within MGOZ as well as the Chairman of the Malta Embellishment and Landscaping Project (MELP), the latter representing the Monitoring Board controlling the running of the agreement between the Government and ELC, verbally confirmed that they had no knowledge about the source of the rate charged to MGOZ. During a meeting held with MGOZ's Management, the latter claimed that this rate was much cheaper than ongoing market rates for similar works.

During 2010, ELC were also refunded for ferry tickets in respect of Maltese employees carrying out work in Gozo, covering period October 2009 to August 2010. Since there was no indication of the officers who travelled to Gozo to carry out such works, correctness of payments effected could not be ensured. The only documentation traced in support of these payments consisted of the ferry tickets themselves.

Incomplete Documentation at MGOZ

Documentation such as appendices of the original agreement between the Government of Malta and ELC, the subsequent addendum dated August 2007, copies of Maintenance and Projects Programme and a copy of the approved Projects Operation Plan and the Projects Contract Documents, were also not submitted for audit purposes.

Dialysis Machines

Background

MGOZ started paying for the servicing agreement of the Gozo Renal Unit as from 2004, when Gozo Channel Company Ltd. discontinued sponsoring this equipment, initially awarded by direct order. As per the latest applicable agreement, between 2006 and 2010, following MFEI's approval for direct order, the supplier was collectively paid the amount of €173,165 (including VAT) in respect of the servicing of the said machines.

No Confirmation obtained from Parent Company

Prior to granting their approval for the direct order in 2006, MFEI requested a confirmation that no other supplier of this service is possible and/or available. However, MGOZ only copied the local supplier with MFEI's request, to which they declared that they are the sole authorised company to sell, distribute and service the dialysis products on the islands of Malta and Gozo. It was only in January 2010 that a confirmation to this effect was obtained from the parent company.

Negotiation of Prices to meet threshold for Direct Order

The prices quoted by the service provider for the period 2011–2015 amounted to €155,000 (excluding VAT). Being above the direct orders maximum limit, MFEI suggested that MGOZ either refer their request to the Department of Contracts for their approval, or else, they would grant them approval for a four year period instead of five. As a result, MGOZ renegotiated the prices with the service provider in order not to exceed the established threshold.

Conditions in contract not in line with Public Procurement Regulations

a) Clause 4.2 of the signed agreement stipulates that *"GGH binds itself to enter into a service agreement for the maintenance of the said machines for a further period of five years following the expiry of the original agreement of five years"*. The contract was in effect entered into for ten years, well in excess of the established maximum threshold. Furthermore, this clause is not in line with the basic principles of the Public Procurement Regulations, in particular those referring to equal access for tenderers and fair competition, without *"… creating unjustified obstacles to the opening of public procurement to competition"*.

b) A penalty of €58.23 (Lm25) per day, included in Clause 8.2, is applicable should GGH decide, for any particular reason, not to honour the agreement. However, no similar penalty is mentioned if the contractor fails to honour his commitment.

c) Another binding clause which is also not in line with the Public Procurement Regulations is Clause 2.6 stating that any additional machines that may be required by GGH may only be ordered from this same company.

Notte Gozitana

Incomplete Documentation substantiating Payments for Lighting Services

Two PVs totalling €5,900 covering the hire of projectors and screens for the Notte Gozitana event, were supported by two separate undated invoices. The two respective LAs were both dated 25 November 2010. Since the LA was raised months after the event and details as to the number of projectors required were lacking both on the quotations and LAs, accuracy of the two payments could not be ascertained. Furthermore, the invoices were not dated.

Eco-Gozo

Procurement Regulations not followed

A Consultant, who was paid a total of €21,830 during an approximate 14 month period, was engaged by direct order as a Support Officer, mainly to provide a communications plan for Eco-Gozo. Notwithstanding the considerable amount, neither was a public call for the service made, nor was MFEI's approval for direct order sought.

Cittadella Master Plan

Procurement effected by Direct Order

MGOZ requested MFEI for authorisation to procure architectural services, with respect to the Cittadella Master Plan, through a direct order, for a total amount of €121,233. Four architects were approached to submit their proposals. However, there was no indication on file as to how the suppliers were selected. During an exit meeting held with Management, the latter stated that discussions were held with the Department of Contracts prior to the selection of the service provider. However, no minutes of these meetings were provided.

General Conditions of Service Contracts waived

Seven provisions included in the General Conditions of Service Contracts, intended to safeguard the Ministry's interests, were waived by means of Clause 2 of the same contract. These sections included, amongst others, the requirement of a performance guarantee if the contract value exceeds €10,000, a full indemnity insurance policy and proof of payments thereof, as well as the preparation of progress reports during the period of execution of the contract.

Electrical and Mechanical Engineering Services

Background

In June 2005, a tender was issued by the Department of Projects and Development within MGOZ for the provision of electrical and mechanical engineering consultancy services. Tenderers were asked to quote for all or any of the following: a) Electrical engineering services only; b) Mechanical engineering services only; c) Electrical and Mechanical engineering services jointly.

Unclear Interpretation of Contract Terms

No clear definitions were traced in the tender document, especially as to the 'Electrical and Mechanical engineering services jointly' option listed above. Notwithstanding that the winning bidder provided both electrical and mechanical services, the joint rates, which were quoted cheaper, were not applied. Instead, electrical and mechanical services were charged separately at the applicable tendered rates, resulting in significant higher costs amounting to €37,619.

Apart from this, the rates quoted in the bid were not considered to be logical, since one would expect the joint rate to somehow average the fees for electrical and mechanical services separately. However, the disparity for the joint rate quoted ranged from 33% (on the services mainly provided) to 250% when compared to the separate rates given in the tender offer. No evidence was found that this anomaly was queried by the Adjudication Board.

Extension of Contract over the Maximum Time Frame

Even though the tender document stipulated a period of one year, which may be extended for another year, in October 2010 the Consultants' firm was still raising invoices, notwithstanding the fact that the project started in 2005. During 2010, a total of €17,452 was paid to the service provider. Thus, the original stipulated timeframe was exceeded by over five years, without a fresh call for tenders being issued.

Lack of Control over Stipulated Timeframes

One of the requirements of the Consultants, as per the tender document, was to ensure the completion of the works in progress within the stipulated timeframes. Works had to be completed within 183 calendar days from the issue of the LA. Even though in October 2010 work was still being performed, when there was a time lapse of 500 calendar days, no penalties were imposed at least till the audit completion date, on neither the Consultants nor the contractor carrying out works on the Civil Abattoir, notwithstanding that the contract provided for this eventuality.

Marsalforn and Xlendi Regeneration Projects

No MFEI approval for Direct Order for Professional Services

a) MFEI approval was not sought for the direct order awarded to a Consultant, covering design and consultancy services for the Marsalforn and Xlendi regeneration projects. Besides a payment of €5,399 issued to this Consultant, a further 148 hours were claimed to have been worked between the period October 2009 and August 2010. This Consultant was originally engaged by the respective Office of the Permanent Secretary within the Office of the Prime Minister (OPM) as he was representing the Parliamentary Secretary for Tourism, the Environment and Culture in the committees for other tasks related to these projects.

b) No agreement was entered into between MGOZ and the Consultant for the professional services provided, since the same conditions that were included in the agreement with OPM, were applied.

Payments exceeding Amounts approved by the Ministry

A quote covering an estimated number of hours for a particular task was submitted by the Consultant and subsequently approved by the Permanent Secretary. This quote, which amounted to €2,975, did not indicate whether the estimated cost was inclusive or exclusive of VAT.

At the end of January 2010, the Consultant submitted an invoice amounting to €5,399, exceeding the approved amount by €2,424. Notwithstanding this, no evidence of queries raised by MGOZ, requesting justification for the difference, could be traced in the respective file and neither was there evidence that the increase was approved by the Ministry.

Hours claimed not supported by Time Sheets

a) One of the requisites in the contract of the Consultant was the upkeep of timesheets, since he was being paid on an hourly rate basis. However, no such records were traced substantiating the number of hours worked. As a result, correctness of hours invoiced and paid, amounting to €5,399 could not be warranted.

b) Though no payments other than the amount highlighted above were traced, it was noted from the file that, between October 2009 and August 2010, the Consultant claimed to have worked an additional 148 hours mentioned earlier. Again, no documentation was made available to corroborate the number of hours worked.

Clinical Waste Disposal

Unsubstantiated Rate for Clinical Waste Disposal

GGH makes use of WasteServ's incinerator for the disposal of their clinical waste at a rate of €590 per tonne, including VAT. Notwithstanding the substantial amounts involved, no agreement was ever drawn up between the two parties.

The flat rate being applied by WasteServ was determined from a report addressed to the latter, drawn up by a private audit firm in January 2008, but was never formalised through the publication of a Legal Notice (LN).

Unsubstantiated Quantities of Clinical Waste sent for disposal

Essential information on the 'Consignor's Copy', such as the estimated total quantity for removal, was not being filled in, even though GGH were being invoiced according to quantity. Waste was only being weighed by WasteServ by means of a weighbridge available at their facility, and the bill raised accordingly. Consequently, correctness of the respective payments could not be ensured as quantities billed were not substantiated by any documentation. Upon inquiry, it was verbally stated that GGH does not have scales suitable for weighing clinical waste, and the costs would outweigh the benefits if an officer had to be sent to WasteServ to ensure correctness of weight.

Other Matters

Shortcomings relating to Christmas Festivities' Decorative Lights

Government Gazette dated 6 November 2009 featured an advert wherein a call for tenders was made for decorative lights for Christmas 2009. These lights had to be prepared in accordance with customised designs supplied by the in-house artist and had to be made functional on 27 November 2009 as per tender conditions. An Evaluation Board was set up to analyse tenders received by interested parties.

a) The services of an engineer or a light technician were requested and appointed by the Evaluation Board on 19 November 2009, only eight days before the Christmas Lights had to be made functional. Furthermore, the adjudication process was finalised on 20 November 2009, resulting in a very short time-lapse between the adjudication of the tender and the finalisation of the lights.

b) There was no indication on file as to when the lights were actually made functional, thus it could not be ascertained whether the set deadline was met by the winning bidder.

c) The contractor whose offer was the cheapest, totalling to €9,950, failed to give an answer as to whether he would be able to carry out the task. Consequently, the second contractor, whose offer was 58% more expensive, was also contacted by phone and it was confirmed that he would not be able to supply the required design for all the streets. From information recorded in the respective file, it transpired that the bidder also stated that to be able to meet the installation deadline, he must be informed immediately. Following the phone call, the contractor went to see the Evaluation Board, complaining that he had all the equipment ready to start the works and would lose money if his tender was discarded. The contract was awarded to this second bidder.

Engagement of College Principal Support Officer

A College Principal Support Officer was engaged, within the Department of Customer Services at MGOZ, between 25 May 2009 and 24 December 2010. The total expenditure incurred during the 19-month period amounted to €6,360, including VAT. It transpired that MFEI approval was not sought for a direct order to be placed for this engagement, in line with the current practice in Malta for similar posts. Furthermore, the vacancy was neither advertised in the Government Gazette in accordance with the Procurement Regulations, nor was an Expression of Interest published.

Overpayment in connection with Malta Trade Fair 2010

a) The participation agreement between MGOZ and the Malta Fairs and Convention Centre (MFCC) was only endorsed by the former.

b) MGOZ paid the supplier the amount of €49,792 on 5 July 2010 before receiving the invoice. This amount, covering the participation in the Malta Trade Fair 2010, was only substantiated by the participation agreement and a quotation, as the bill was received on 13 July 2010. Total amount due as per invoice was €49,079. It transpired that the amount of €714 for a carpet required for the Eco-Gozo Island stand during the fair was paid twice. No refunds were reflected in DAS in this respect.

Permission Fees due to the Malta Environment and Planning Authority

Clarification with MEPA *vis-à-vis* fees in connection with permits and billboards for afforestation projects was only made by the Ministry following NAO queries. Moreover, the calculation sheet on which such payment was made, was not endorsed by any officer from MGOZ certifying its correctness.

Weaknesses in connection with Traffic Management Services

Nine payments included in the audit sample, amounting to €22,639, out of a total of €37,555 similar payments made during 2010, were issued to a third party for traffic management services. These services are generally required to protect workers carrying out road works and to help manage traffic. It transpired that:

a) architects and officers in charge of Works Branches request warden service verbally, with no record of the place, date and time when these warden services were requested during a particular month; and

b) no documentation is kept on file as evidence to make sure that spot checks are carried out by the officer in charge of the site, ascertaining that wardens were indeed present where required.

Misallocation of Expenditure

Seventeen payments out of a total sample of 87 PVs (i.e. 19%) examined for audit purposes, amounting to €83,832, were posted to the wrong account.

Deferred Payments

A number of commitments, totalling to €151,102, were included with the expenditure for 2010, when in actual fact, the respective invoices were raised in 2009. This total does not include four invoices amounting to €26,678 dated 31 December 2009 and also paid the following year.

Compliance Issues

Financial Correction on EU Funded Project

The Planning and Priorities Coordination Department (PPCD) recouped the amount of €17,682, covering different purchases for a number of EU funded projects, from MGOZ in favour of the European Commission. As stated by the former, this was due to non-compliance with the requirement of an adequate degree of advertising and transparency in terms of Contracts Circular No. 44/2007, notwithstanding that in terms of the Public Procurement Regulations, purchases of equipment, stores, works or services up to €6,000 can also be procured direct from the open market, taking into consideration the urgency attached to the procurement and restrictions of choice and availability.

Recommendations

Key Issues

Shortcomings in the Procurement of Goods and Services

Public procurement has to be carried out in a fair and transparent way, treating all interested operators equally. While direct orders may be resorted to in some cases, this is not to be considered as best practice and thus should be avoided as far as possible. Continuous review of the Ministry's activities is recommended so that needs for goods and services can be determined at an early stage, allowing enough time to follow the appropriate procurement procedures.

Lack of thorough checking

Officers certifying invoices and PVs are to ensure that they are in possession of all the documentation necessary to enable them to ascertain that amounts claimed are correct and payment may be effected. No certification is to be carried out unless proof of contracted rates is provided.

Control Issues

Supplier's Invoice preceding Letter of Acceptance

LAs are to be raised prior to the placing of orders for goods or services with the supplier, so as to ensure that adequate authorisation is sought for the procurement of the requested items, and that sufficient funds are available. Furthermore, prior to payment, invoices are to be reconciled to LAs to ensure that what is being charged for tallies with what was originally ordered and subsequently received.

Laundry Services to Gozo General Hospital

Procurement by Direct Order

As per Public Procurement Regulations, an entity may in exceptional cases place direct contracts in excess of €6,000 only following prior approval from MFEI.

Unofficial Extension of Agreement

MGOZ should abide with the Procurement Regulations and issue a fresh call for tenders upon expiry of an agreement.

Items not included in Agreement

GGH is to make sure that if new items being taken to the laundry are not included in the original price list, the respective rates to be charged are to be officially agreed upon and documented accordingly beforehand.

Environmental Landscapes Consortium

Invoices lacking basis on which these were certified and paid

Unless details contained in invoices can be fully verified, they are not to be certified as correct and forwarded for payment. Officers are to ensure that they have in their possession all the required documentation, enabling them to validate the amount being charged prior to certifying the invoice as correct and effecting payment.

Incomplete Documentation at MGOZ

MGOZ is encouraged to obtain copies of all relevant records and ensure compliance with the provisions of the same documents.

Dialysis Machines

No Confirmation obtained from Parent Company

A declaration that the service provider is the only authorised supplier of such dialysis machines in Malta and Gozo was expected to be obtained from the parent company at the outset in 2005. This would have served as proper third party evidence.

Negotiation of Prices to meet threshold for Direct Order

In accordance with LN 296/10, clause 16(2), *"Contracting authorities shall not establish an estimated value of a public contract with the intention of avoiding the application, in part or in whole, of these regulations."*

Conditions in contract not in line with Public Procurement Regulations

Clauses which may preclude or distort competition are not to be included in public contracts. Moreover, the contracting authority is obliged to safeguard Government's interests when drafting agreements with the supplier.

Notte Gozitana

Incomplete Documentation substantiating Payments for Lighting Services

No payments are to be processed unless the GSPO/LA, duly approved, contains full particulars of each service, so as to enable checking without reference to any other document, in line with the General Financial Regulations provisions.

Eco-Gozo

Procurement Regulations not followed

Abiding by the rules laid down in the procurement regulations, and making use of the flexibility they offer, will make it possible to reach a wider market thus enhancing the department's bargaining power. Furthermore, covering approval from MFEI for payments made to the foregoing Support Officer is also recommended.

Cittadella Master Plan

Procurement effected by Direct Order

Management is to have long-term strategic plans in place to avoid situations leading to 'management by crisis' and having to resort to solutions which may not be in line with standing regulations, or the most beneficial for the Ministry. For reasons of transparency and fair competition, any information given to stakeholders has to be made equally available to all interested parties. A public call for quotations is to be made, for similar future circumstances, in the Government Gazette in order to give all suppliers the opportunity to participate.

General Conditions of Service Contracts waived

Any clauses included in the General Conditions for Service Contracts, intended to protect the contracting authority and to safeguard taxpayers' interests, are to be observed.

Electrical and Mechanical Engineering Services

Unclear Interpretation of Contract Terms

Terms in the tender document are to be clearly explained, defining all contents and, as far as possible, leaving no room for different interpretations. Unless clearly outlined otherwise, the joint rates were expected to be applied in those cases where the contractor provided both electrical and mechanical services. The adjudication board is also expected to query any anomalies in the submitted bids.

Extension of Contract over the Maximum Timeframe

A fresh call for tenders is to be issued whenever a contract expires.

Lack of Control over Stipulated Timeframes

All of the conditions in the tender document are to be abided with. Justifications for delays are to be made in writing and the applicable penalties inflicted, where deemed necessary. Extensions to the contract are only to be approved after the necessary verifications have been carried out and delays confirmed to have resulted beyond the control of the contractor.

Marsalforn and Xlendi Regeneration Projects

No MFEI approval for Direct Order for Professional Services

Procurement regulations are to be followed when purchases of goods and services are effected.

Payments exceeding Amounts approved by the Permanent Secretary

Variances between official estimated amounts and actual payments are to be controlled and queried by the Ministry. They should be forwarded to the Permanent Secretary for his approval only if ample justification exists.

Hours claimed not supported by Time Sheets

The Ministry is to make sure that detailed time sheets are maintained and hours invoiced tallied to these records prior to effecting payment. In such absence, payment to suppliers is to be withheld. Where the upkeep of time sheets may not be appropriate, other control measures will be required.

Clinical Waste Disposal

Unsubstantiated Rate for Clinical Waste Disposal

A contract is to be entered into between GGH and WasteServ, making reference to the applicable legislation for the prescribed fees and also specifying all the necessary clauses.

Unsubstantiated Quantities of Clinical Waste sent for disposal

MGOZ is to ensure that GGH weighs its own clinical waste, before this is sent to WasteServ for the eventual disposal. Given the current average weight per month, a normal domestic scales can be used. The actual amount weighed by WasteServ should then be tallied to the weight identified by GGH before invoices are certified correct for payment.

Other Matters

Shortcomings relating to Christmas Festivities' Decorative Lights

In the spirit of fairness and transparency, the Department of Culture is to publish tenders in good time, allowing adequate period so that all interested contractors can prepare the requested designs. Furthermore, this would enable more contractors to bid for the service and as a result the Department may be able to get more advantageous prices.

Compliance with tender specifications is to be evident and ideally confirmed by members of the Board by means of a minute in the file, in this case indicating when the lights were made functional.

Engagement of College Principal Support Officer

Even though the choice of eligible persons suitable for College Support Officers might be limited, opportunity is still to be given to all appropriate applicants and a transparent selection process is to be carried out.

Overpayment in connection with Malta Trade Fair 2010

The Ministry is to ensure that agreements are signed by both parties, otherwise they can be regarded as invalid.

Payments are only to be effected following receipt of invoice. All documentation on which payments are based is to be vetted for accuracy before it is certified correct. Furthermore, MGOZ is to recoup the overpayment.

Permission Fees due to the Malta Environment and Planning Authority

MGOZ is to ensure that all invoices and supporting documents are thoroughly checked and certified as correct by an authorised officer before processed for payment.

Weaknesses in connection with Traffic Management Services

Full records are to be kept, clearly indicating the days when wardens were requested, location, number of wardens, number of hours and the applicable rates. Even though money paid by MGOZ should be recouped from the Contractor, the Ministry is still bound to ensure that appropriate controls are in place to verify correctness of payments.

Spot checks are to be carried out on a regular basis and duly recorded, giving details and specifying the name of the warden, together with the time, date and place when the warden was seen performing his/her duties.

Misallocation of Expenditure

More diligence is to be exercised when allocating expenses to ensure that the relative costs are correctly reported under the pertinent Line Items, as this could have an effect on future budgets and distort management information. If funds are not available in the relevant account, proper virement procedures should be followed.

Deferred Payments

A forecast of the annual expenditure, estimated to be needed for any budgeted year, is to be as objective and realistic as possible. As stipulated in MF Circular No. 2/2007, deferred payments from one year to the other are to be kept at an absolute minimum.

Compliance Issues

Financial Correction on EU Funded Project

Contracting authorities availing themselves of EU Funds are to be made fully aware of the applicable rules if more stringent laws and regulations apply for EU funded projects.

Management Comments

Management concurred with a number of observations and most of the related recommendations will be taken on board. Action has already been taken to address certain areas as indicated hereunder.

- In connection with the laundry services at GGH, following the audit, MGOZ sought approval from the Contracts Department for the undertaking of a Service Level Agreement with KOLS.

- MGOZ stopped reimbursing ferry tickets to ELC employees as from August 2010. In addition, the Ministry maintained that following the Commitment of Undertaking entered into in July 2010, all ELC invoices are first certified by MELP, and only then are they passed for payment.

The following comments and reservations were also submitted:

- Management commented that, with respect to the engagement of a Support Officer for Eco-Gozo, in order to implement the Government's Budget for 2010, the Ministry had to hire external services. However, this particular contract will not be renewed again upon its expiration.

- The nature of the architectural services required for the Cittadella Master Plan is highly specialised. As a result, following a number of meetings with the Department of Contracts, a direct order was opted for, after having obtained four quotations.

- The Ministry highlighted that the tender for electrical and mechanical engineering services was intended to cover situations in which separate treatment was possible and also where this was not the case. Thus the individual rates were applied in those instances where electrical and mechanical services were identifiable.

  With regards to the extension of the Consultant's contract over the maximum timeframe, MGOZ stated that the contract was primarily used for the Civil Abattoir's upgrading. However, since this was not completed by the original termination date of the Contract, the tender had to be extended in order to avoid splitting responsibilities between different service providers on the same project.

  Management justified the delays in the stipulated timeframes, stating that certain works had to be carried out by labourers in the public service before installation of the Slaughtering Line equipment at the Civil Abattoir. Hence, the contractor's timeframes had to be extended since it depended on the extent of completion of the necessary tasks.

- MGOZ indicated that the Consultant engaged for the Marsalforn and Xlendi Regeneration Projects was working on the same projects with the Parliamentary Secretariat for Tourism. It was further stated that *"Given the time constraints for the submission of the application for EU funds and as a result of the fact that he had already been involved in these particular projects through the contract for service assigned to him by the Parliamentary Secretariat for Tourism, the Environment and Culture, it was deemed appropriate by the Ministry for Gozo to make use of this same consultant on these particular projects"*. Management also remarked that the quote submitted concerned only the upgrading of the two waterfronts, and did not include the additional designs covering the Qbajjar promenade and Xlendi car park provided by the Consultant during the course of his engagement.

  With regard to the lack of timesheets, it was stated that *"The Consultant had perforce to carry out the required work away from the Ministry for Gozo…."*. Management also claimed that the amount of work involved in the assignment can be easily verified by same.

- In connection with the disposed clinical waste, MGOZ pointed out that the only incinerator available in Malta is the one managed by Wasteserv, and GGH does not have an alternative. It was further claimed that until a LN is issued, the responsibility for which lies with the entity offering the service, GGH cannot ensure that fees charged are compliant.

  In addition, MGOZ stated that given the quantity of waste transported, it would be more efficient if the weighing was done at the Wasteserv's weighbridge at the Qortin landfill in Gozo where it could be verified by GGH staff.

- MGOZ alleged that a public call for the engagement of a College Principal Support Officer was issued in February 2010. However, no evidence was provided.

- The Ministry contested the fact that there was an overpayment for the carpet at the Malta Trade Fair. However, this issue was questioned by NAO during the exit meeting. Eventually, the overpayment was refunded by MCC on 06 October 2011.

- Management stated that an improved procedure has been introduced in connection with Traffic Management Services in order to ensure that wardens are called in by a documented request and that wardens present on site sign a document confirming their presence. It was further indicated that the commissioning of warden service is being left to the contractor who will be paying for the service, and that the relative Department will however make regular documented checks to ensure that wardens are actually in place.

- MGOZ explained that funds allocated to GGH may not suffice to cover the fixed costs which are essential to run the hospital. As a result, an amount of bills from the previous year may remain in hand and unpaid, and will have to be inevitably deferred to the following year.

Ministry for Infrastructure, Transport and Communications

Ministry for Infrastructure, Transport and Communications Expenditure Audit for the year 2010

Background

The main function of the Ministry for Infrastructure, Transport and Communications (MITC) is to realise the 'Smart Island' strategy which aims to strengthen the role of Information and Communications Technology in Government.

To achieve this goal, MITC has been assigned the responsibility for the Malta Communications Authority, the Information and Communications Technology Strategy and National Identity Management. The delivery of the latter is made possible by the fact that MITC also includes under its portfolio the Public Registry, Land Registry, Civil Registration, Identity Cards and Passports.

The Ministry is also responsible for ensuring the national interest in the policy setting, regulation and operations of entities that are fully or partly-owned by Government.

Moreover, MITC coordinates major urban development projects, including Malta's major initiatives at Smart City and the Regeneration of the Grand Harbour and the Port of Marsamxett. To facilitate and further support these projects, the Ministry is responsible for the coordination of respective road building, maintenance, landscaping and cleansing.

Audit Scope and Methodology

The objectives of the audit were to evaluate the present internal controls from both the accounting and administrative points of view and to verify the extent of compliance of the Corporate Services Directorate and the Permanent Secretariat (PS) with the Financial Regulations and relevant Circulars.

During the year 2010, there were 3,267 expenditure transactions recorded in the Departmental Accounting System (DAS) Nominal Ledger totalling €1,439,625. Whilst 1,196 Payment Vouchers (PVs) amounting to €617,119 pertained to the Directorate, 2,071 PVs totalling €822,506, pertained to PS.

These transactions were analysed and a random sample of 65 PVs pertaining to the Directorate was chosen with a Confidence Level of 90% and a Confidence Interval of approximately 10%. Another 66 PVs of PS were selected using the same parameters. Particular attention was given to the materiality of amounts and nature of expense.

The 131 PVs selected, bearing a monetary value of €202,873 (14.1%) were tested to ensure regularity compliance against standing Rules and Regulations. Payments were also traced to Local Purchase Orders (LPOs), invoices and fiscal receipts. Checking was carried out to ensure that payments were properly allocated to the related expense account in DAS, were duly authorised and correctly computed.

A total of 228 Multi-Payment (MP) transactions, bearing a monetary value of €132,621 pertaining to PS, were generated from DAS during 2010. A sample of 40 MPs (17.5%) were randomly chosen, bearing a monetary value of €48,433, using a Confidence Level and Confidence Interval of 90% and 11.83% respectively. This represented 36.5% out of the value of MPs. The main criteria taken into account in selecting this sample was the nature of the expense.

Furthermore, the monthly fuel consumption of 11 fully-expensed cars, in use both at the Directorate and PS, was examined to ensure that the maximum non-cumulative fuel consumption per month did not exceed the entitlement of fuel as stipulated in MFC Circular No. 5/98.

According to the list of all vehicles obtained from MITC, there were seven[1] general use cars during 2010. Verification whether the relevant log books were maintained according to relevant Sections of the Public Service Management Code (PSMC) was carried out. A sample of one month usage for each general use car has been taken and details of all trips during the selected months were vetted.

Control Issues

Opportunities for improvement were identified in the following areas:

Expired Agreement of Inter-departmental Mail not Renewed and Related Increased Costs not Supported

Through a letter from the Ministry of Finance, the Economy and Investment dated 2 March 2000, the Permanent Secretary of the then Ministry for Transport and Communications was informed of an agreement reached between the former and Maltapost plc in connection with 'Censorship and Inter-departmental Mail Services.' Maltapost plc charges MITC a fixed fee which varies according to the salary movement of the two Maltapost personnel engaged on the management of inter-departmental mail of all Ministries. Although the agreement expired on 31 December 2002, it has to-date not been renewed, posing 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. Moreover, any increased costs of the service contract would not be officially agreed upon.

Upon verification of the three PVs falling within the audit sample, amounting to €5,732 each, it resulted that Maltapost plc charged MITC a total sum of €68,784 for the year 2010. Following National Audit Office (NAO) enquiry, during July 2011, MITC requested a breakdown of salaries for each employee currently under inter-departmental mail agreement. According to Maltapost plc the cost of salaries amounted to €58,361 which includes, *"…stationery, consumables and rental of equipment, which obviously since then have become more expensive."* This resulted in a discrepancy of around €10,000 for which MITC requested a further explanation. Up to the issue of this report, no detailed breakdown was furnished by Maltapost plc regarding this discrepancy.

No Formal Appointment of Secretary to 'Printed Matter Appeals Board'

A Multi-Payment amounting to €419, related to an allowance in connection with duties carried out by a Secretary to 'Printed Matters Appeals Board', covering period July to December 2009.

The last correspondence traced in the departmental file dated back to 2008. The officer performing secretarial duties requested MITC for a former appointment as Secretary to the Board, following Board members' resignation as a normal procedure before a change in legislation or Government. No formal appointment could be traced in the same file. Management commented that this Board was abrogated from the Postal Services Act by the legislative amendments made during 2010.

It was also noted that claims for payments by the above mentioned officer were not supported by a schedule of hours performed, but simply by a handwritten request. This practice leads to inadequate control over the hours actually performed by the officer.

Lack of Control over the Issue of Payments

- Whilst examining three PVs relating to cleaning services against the related agreement and attendance sheets, it was noted that the date on which the 2009 - 2011 agreement between MITC and the service provider was entered into was missing. In addition, the contract stated that the duration per clean was of six hours, three times weekly. However, according to the attendance sheets and invoices, it resulted that in actual fact the cleaner was working seven hours instead of six.

- MITC was granted 5% discount on lift maintenance services. Fifty per cent of the global amount was effected as a deposit for the amount of €4,409. It was observed that a commitment for the remaining outstanding balance on completion of works did not reflect the 5% discount. However, at the time of the audit the commitment dated 20 August 2010 was not yet processed. MITC confirmed that the 5% discount shall be deducted when the remaining balance is settled.

Compliance Issues

Local Purchase Orders dated after Invoice

Eight LPOs, representing 6.1% of 131 PVs tested, were issued after the date of the invoice. Non-adherence may result in not having enough funds to pay for the actual expense.

[1] One of the general use cars, according to its log book, was only utilised by MITC during October 2010, and was subsequently transferred to another Ministry. The log book of this vehicle was thus checked for the month of October.

Expenditure not Analysed under the Appropriate Item

Although the majority of transactions were correctly analysed under the appropriate Item, it was noted that out of 171 transactions examined, 10 (5.8%) amounting to €4,786 were not posted under the appropriate account in the Nominal Ledger. This will inevitably distort the comparative amounts of budgeted and actual expenditure as reported in the Financial Report of the Government of Malta.

Professional Services not backed by a Tax Invoice and paid for through the Multi-Payment System

A Multi-Payment issued to a VAT registered consultant offering professional services was not made against a fiscal invoice, but against a template showing the number of hours carried out by the same consultant. Although, the consultant issued a VAT fiscal receipt, Article 10 of the service contract stipulated that *"The contract shall be exempt from all duties and taxes. VAT should be quoted separately."* Upon enquiry, the Director Corporate Services requested the consultant to issue fiscal invoices for future claims, which request was confirmed by the latter.

Shortcomings on Issuing of Fuel Requisition and Issue Notes

A Payment Voucher amounting to €1,037 for the purchase of fuel was tested for the month of October 2010. The following shortcomings were noted:

- The total amount and the quantity of litres purchased that were noted on the Fuel Requisition and Issue Note (FRIN) issued from the Fleet Management System (FMS), were altered manually on one occasion. In three other cases, the 'Kms before filling' (mileage) was entered manually.
- Certain fuel requisitions did not indicate the mileage.

Failure to comply with MFIN Circular No. 4/2007 might lead to overpayments to fuel suppliers. Moreover, FMS may not be correctly updated with the consumption of fuel utilised should FRINs be erroneously filled in.

Log Books Improperly Maintained

Testing was limited to six general use vehicles, due to the fact that the logbook of another general use vehicle could not be traced.

All six log books tested were not maintained as specified in Appendix 8.1 of the PSMC.

Fully-expensed car exceeding Fuel Consumption Limit

It was observed that the fuel limit of a fully-expensed car in use by an entitled officer was exceeded by 14 litres during September 2010. Following NAO enquiry, the officer in charge transport confirmed that the fuel limit in FMS was incorrectly set as unlimited, which led to this excess in fuel entitlement. Action was taken on 6 July 2011 to rectify this matter and set the limit at 150 litres accordingly.

Recommendations

Control Issues

Expired Agreement of Inter-departmental Mail not Renewed and Related Increased Costs not Supported

All services provided under agreements should be renewed immediately upon expiry, if such services are still required. MITC should strive to take into consideration all costs in connection with inter-departmental mail services before entering into a new agreement, ensuring requests for payments are supported by appropriate breakdown of amounts claimed.

Lack of Control over the Issue of Payments

- MITC should verify whether the services of the cleaner are required beyond the number of hours stipulated in the contract. If so, an amendment to the current agreement is needed, besides reflecting the change in any future agreements.
- All invoices should be verified against attendance sheets and relevant agreements/quotations prior to effecting payments.

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 Item

Expenditure is to be allocated to the proper account in order to ensure that the accounts are fairly presented.

Professional Services not backed by a Tax Invoice and paid for through the Multi-Payment System

It is recommended that future payments due to the consultant are generated through the PV system rather than a MP, following receipt of a fiscal invoice from same.

Shortcomings on Issuing of Fuel Requisition and Issue Notes

MITC should strive to comply with the regulations stipulated in MFIN Circular No. 4/2007.

Log Books Improperly Maintained

Log books should be maintained and certified as indicated in Appendix 8 of the PSMC. For audit trail purposes, the FRIN number should be recorded in the log books under column 'Issues for Petrol', besides the amount and value of petrol.

Fully-expensed car exceeding Fuel Consumption Limit

MITC should review the contracts of officers benefiting from a fully-expensed car to ensure that the fuel limit inputted in FMS corresponds to the limits outlined in MFC Circular No. 5/98.

Management Comments

Management concurred with the findings highlighted in the report and took action to implement the recommendations. MITC submitted the following additional comments:

- A new contract for cleaning services was signed in June 2011 following the issue of a call for tenders. The contract stipulates the number of cleaners required and the amount of hours to be worked on a daily basis. Management also stated that exceptions may occur where cleaning services are required beyond the contracted times and in such cases, the contractor is asked to provide the necessary extended services at the established rates.

- Management reiterated that FMS was always appropriately updated, and also pointed out that the fuel rates in FMS are updated automatically by the Office of the Prime Minister.

Ministry of Education, Culture, Youth and Sport

Malta College of Arts, Science and Technology Recurrent Expenditure Audit

Background

The Malta College of Arts, Science and Technology (MCAST) was founded through a Deed of Foundation signed on 11 August 2000. The College's establishment sees its origin from Government's need for an institution in Malta which provides a post-secondary education, other than that which is provided at the University.

MCAST provides all duly qualified students with the opportunity to qualify in trades, skills, artisan, technical or commercial activities, and in the professions in order to prepare, instruct and instil discipline in those citizens for work in the community. This is achieved by offering full-time vocational courses at various levels, leading to internationally recognised certificates and diplomas at further and higher education level, as well as *ad hoc* courses.

The College incorporates the following ten Institutes:

- Agribusiness Institute
- Institute of Art and Design
- Institute of Building and Construction Engineering
- Institute of Business and Commerce
- Institute of Community Services
- Institute of Electrical and Electronics Engineering
- Institute of Information and Communication Technology
- Maritime Institute
- Institute of Mechanical Engineering
- MCAST Gozo Centres.

The Board of Governors, the Council of the Institutes, the Administrative Bureau, the Boards of Studies of the Institutes, as well as the Partnership Office, are the governing bodies of the College. Each of these bodies has specific functions and duties as established by MCAST's Statute.

MCAST's budgetary allocation for 2010 amounted to €14,600,000[1]. Thirteen tranches totalling €14,425,010 were forwarded to the College by the Ministry during the year.

The audited Financial Statements for the year ended 31 December 2009 report that, prior to accounting for the depreciation charge and the respective release for the year, the College suffered a deficit of €455,228. On the other hand, according to the Management Accounts for 2010, MCAST registered a surplus of €300,188 for the subsequent year.

Audit Scope and Methodology

The scope of the audit was to ensure that expenditure incurred by MCAST during 2010 was appropriately recorded and processed according to the General Financial Regulations (GFRs), 1966 and other pertinent Regulations and Circulars.

Audit work performed covered a sample of transactions charged to various expenditure accounts, namely, Communications, Repairs and Maintenance (Buildings), Consultancy and Professional Fees, as well as Cleaning and Consumables. Apart from Wages and Salaries, these aforementioned accounts were amongst the main contributors to recurrent expenditure for Financial Years 2009 and 2010.

[1] Out of this amount, €100,000 was expensed on the settlement of utility bills, presumably in arrears, since the transaction was effected on 18 January 2010.

The audit sample, selected according to materiality, totalled 85 transactions, collectively amounting to €215,195[2]. Audit testing included ensuring compliance with procurement regulations, verifying the mathematical accuracy of invoices and checking whether MCAST was invariably issued with a fiscal receipt, where applicable.

Testing was also performed on a sample of payments effected to part-time lecturers delivering evening courses, perks enjoyed by permanent staff, as well as on petty cash.

Key Issues

Consultancy Services

Procurement Regulations not followed in the Engagement of a Consultant

On 14 September 2009, MCAST entered into an agreement with a consultant engaged to provide his professional expertise and assistance in the implementation of the European Social Fund (ESF) 1.36 Project. The term of this agreement was for six weeks, with the total contract value amounting to €2,250[3].

A total of seven extension addenda to the agreement were subsequently entered into, six covering a period of six weeks each, while the last addendum was for a period of over five months. This resulted in the consultant being engaged from 14 September 2009 till 31 December 2010, with total payments effected amounting to €25,044 (€6,294 in 2009 and €18,750 in 2010).

No information regarding the consultant's engagement was made available during the audit. However, following a meeting held with MCAST senior officials, the National Audit Office (NAO) confirmed that procurement regulations were not followed in this case.

Payments for Consultancy Services not verifiable

As mentioned above, the agreement between MCAST and the foregoing consultant stipulates that the latter is to be paid at the rate of €25 per hour (VAT included) for 15 hours a week. The consultant also bound himself to spend seven out of the 15 hours per week on MCAST Campus.

Although the Deputy Principal of the College claimed that sometimes the consultant spent more time at MCAST than established by his agreement, no attendance sheets were kept in support of this statement. Thus, actual hours per week spent by the consultant on MCAST Campus, as stipulated by the relative agreement, could not be ascertained.

None of the 10 payments made by MCAST to the service provider during 2010, totalling €18,750, were supported by a tax receipt.

Control Issues

Opportunities for improvement were identified in the following areas:

Permanent Staff

Extension to Contract of Service not traced

The extension to a Manager's contract of service, which expired on 8 October 2010, was not traced to her personal file. Neither was the request in writing, required to be submitted by the officer three months prior to the completion of service to inform MCAST whether she desired to remain in employment or not, made available during the audit.

Both the officer's request, as well as the new agreement entered into on 31 January 2011, were only forwarded to NAO subsequent to the finalisation of the audit and the submission of the respective Management Letter.

No Request and Approval for different working arrangements

During the audit, an Executive Secretary was employed on a teleworking basis, reporting to MCAST Campus three days a week. No documentation was traced to her personal file substantiating the officer's request to work from home, as well as a formal approval authorising these working arrangements. This hindered verifications to ensure that this officer's teleworking arrangements were approved from the right level of authority and that her working hours are in line with MCAST's policies.

Perks enjoyed by MCAST Officers not formally authorised

a) The College's telephone bills included monthly charges for a residential internet connection being enjoyed by a Deputy Director. An officer confirmed that this concession was granted by the former MCAST Principal, in view of the fact that

[2] The sample was selected from those transactions recorded in the College's accounting system up to end September 2010.
[3] According to the contract, the consultant bound himself to work for 15 hours a week, payable at an hourly rate of €25 (Value Added Tax (VAT) included).

the Deputy Director was performing College work from home. However, neither the latter's contract of service nor other documentation held in his personal file mention the approval for this perk.

b) Two officers, namely a Manager and an Executive Secretary (same officer referred to in the previous observation), were employed on a teleworking basis. Both enjoyed free internet facilities, telephone (fixed line) services and calls consumption during 2010. However, these perks were not included in the contract of service of either officer. Furthermore, no documentation was traced in the respective officers' personal files indicating that these perks were formally authorised.

c) Besides free internet and fixed line telephone facilities, it was noted that mobile top-up vouchers were also purchased by the above-mentioned Manager and reimbursed from petty cash. These amounted to at least €90 till September 2010[4]. Although a senior MCAST officer claimed that reimbursement of these expenses is effected only upon the approval of the Administrative Director, the respective fiscal receipts were endorsed only by the recipient herself.

Part-time Lectures

Payments for Lectures delivered not backed by Students' Attendance Sheets and vice-versa

a) Although requested during the audit, the students' attendance sheets evidencing 34 lessons delivered by two lecturers, out of the nine chosen in the audit sample, were not made available. Consequently, almost 100 hours worth of lectures, resulting in a total payment of €2,323, were not backed by supporting documentation.

b) On the other hand, students' attendance sheets could imply the delivery of 12 lectures (totalling 31 hours) which were not claimed for payment by the respective lecturers. The Institute Directors were verbally informed by the examiners on this matter. However, no explanations were submitted during the audit. The unclaimed hours would have triggered a payment of €728.

Lectures delivered not covered by Contracts of Service

While conducting audit testing, instances were noted where lecturers claimed payment for evening courses delivered on dates which were outside the term of agreement. Over €4,291 were paid for 184 hours of lectures claimed but not covered by valid contracts of service. Thus, it is unclear whether the provision of these courses and the respective payments were authorised at all.

Inconsistent Signatures on Lecturer's Claims for Payment

In reviewing the claims for payment raised by a lecturer delivering evening courses between October 2009 and July 2010 at the Institute of Business and Commerce, the examiners noted that the officer's signature was inconsistent and at times differed completely. However, all returns were certified correct by the Deputy Director of the respective Institute and processed for payment.

Petty Cash[5]

Maximum Value of each Petty Cash Expense not defined

a) A review of petty cash records compiled by the various Institutes/Departments revealed that the value of each expense charged to petty cash varied from a few cents to over €200 per receipt. An MCAST officer confirmed that no threshold is imposed on the cost of each single expense charged to petty cash, justifying this procedure by claiming that Directors are aware that the expenses must be reasonable, bearing in mind the amount of the petty cash float.

b) The items expensed from petty cash ranged from consumables (coffee, tea, sugar, etc.) and stationery items, to lunches for external visitors, souvenirs/gifts, motor vehicle repairs, and even computer peripherals.

Petty Cash Balances not physically counted by an Independent Officer

No physical counting of the actual cash balances, held by each Institute/Department allocated a petty cash float, is

[4] Given that the reimbursements were for October and November 2009, as well as from March to September 2010, although no fiscal receipts were traced for December 2009 till February 2010, it is likely that these were still claimed by the officer. Mobile top-up vouchers purchased for October 2010 onwards also cannot be excluded.

[5] MCAST Institutes, the Vocational Teacher Training Unit, the Information and Student Support Services, as well as the Administration, were each allocated a float for petty expenses on the Imprest System. From January up to mid-October 2010, expenses charged to petty cash by all Institutes and Departments (except for the Institute of Business and Commerce, which did not utilise any petty cash during 2010), totalled an aggregate of €28,723.

carried out by MCAST's Finance Department, since the signing of petty cash records by the Institute Directors is considered sufficient to confirm that the balance is actually held by the respective Institute.

Independent Verifications to validate Expenditure not evidenced

MCAST's Finance Department's claims of verification of petty cash expenditure, to ensure that the items purchased are justifiable and of reasonable value, were not evidenced on the petty cash records covering expenditure incurred by the Institutes/Departments between January and mid-October 2010.

Shortcomings in managing Petty Cash

Audit testing revealed a number of shortcomings in the management of petty cash including:

- petty cash records not certified correct by the respective Directors;
- fiscal receipts supporting expenditure charged to petty cash not endorsed by the Institutes' Directors; and
- petty cash vouchers, to be signed by the officer receiving reimbursement for goods purchased, in support of the money received, not raised.

Incomplete Information presented in Petty Cash Records

Purchases effected from the petty cash float were not recorded on a pre-established standardised template. Each of the twelve Institutes/Departments receiving a cash float during 2010 utilised its own format for reporting the expenditure incurred. Information included in the petty cash records, covering expenditure incurred between January and mid-October 2010, was not complete since:

- expenses were not recorded in chronological order;
- the amount allocated as cash float and the period covered was not evidenced;
- petty cash records failed to include a description of the items purchased; and
- the fiscal receipts supporting expenses incurred were not cross-referenced to the petty cash records.

Other Matters

Late Payment Charges incurred on Telephone Bills

From testing carried out on telephone bills it transpired that, on a number of instances, MCAST incurred late payment charges. In fact, out of the audit sample of 39 invoices, 22 (i.e. over 56%) included an element of such charges, which ranged from a few cents up to over €130 per bill.

MCAST officers claimed that the late payment charges were being incurred since payment of the whole bill is not authorised until all Institutes approve the costs pertaining to them.

Compliance Issues

Audited Financial Statements not fully compliant with International Financial Reporting Standards and other Inaccuracies

a) The disclosures presented in the Financial Statements were at times inadequate or insufficient. For example, the amount shown under 'Other Reserves' was not analysed, while the policy adopted for releasing the depreciation charge from such reserves was not clearly indicated. Furthermore, no notes to the accounts were prepared for related party transactions and deferred taxation.

b) The 'Other Reserves' amount in the Consolidated Statement of Financial Position as at 31 December 2009 was understated due to an unexplained difference of €13,254 in the depreciation release for the year.

c) During 2009, the rates adopted for calculating the depreciation charge on improvements to buildings, as well as furniture, fixtures and equipment, were rather on the high side when compared to the prevailing rates in general.

d) The terminology used in the Financial Statements was not always in accordance with that required by International Accounting Standard (IAS) 1: Presentation of Financial Statements.

Defaulters not reported to the VAT Department

Out of the audit sample of 85 transactions (for a total value of €215,195), 12 payments collectively amounting to €26,231, were not supported by a tax receipt. This amount is mainly made up of 10 payments totalling €18,750, effected to the consultant reported upon earlier on in this report.

When queried on whether the return identifying fiscal defaulters is submitted to the VAT authorities on a quarterly basis, as required by MF Circular No. 5/2002, MCAST officers insisted that payments are always effected against the presentation of a tax invoice or fiscal receipt. Nonetheless, a 'nil' return is still not forwarded to the VAT Department.

Recommendations

Key Issues

Consultancy Services

Procurement Regulations not followed in the Engagement of a Consultant

Being a contracting authority, as prescribed by Schedule 2 of the Public Contracts Regulations, MCAST is to strictly adhere to the established procedures when procuring goods and services. By the way of good practice, it is adviseable that Departments follow Contracts Circular No. 44/2007.

Purchases with an estimated value between €2,500 and €6,000 solicit a call for quotations or the issue of a departmental tender, ideally following an advertisement in the Government Gazette in terms of Contracts Circular No. 44/2007, although not legally obliged by Regulation 20(1b) of LN 296/2010. On the other hand, goods and services exceeding €6,000 but not €120,000 may be procured after a departmental call for tenders.

Direct contracts are only to be resorted to in exceptional circumstances and not used in lieu of issuing tenders. Ministry of Finance, the Economy and Investment approval is to be obtained prior to purchasing the respective goods/service. In such cases, quotations are still to be sought, unless only one supplier offers the particular goods/service. The requests for direct order approval are to also indicate the reasons justifying this approach.

Payments for Consultancy Services not verifiable

In the event that the provision of similar services is required in the future, attendance sheets are to be kept to record consultants' presence on Campus. The attendance sheets are also to be endorsed by a senior officer.

Furthermore, when entering such contracts, MCAST is to consider binding the service provider to prepare weekly or fortnightly progress reports to justify hours claimed.

Control Issues

Permanent Staff

Extension to Contract of Service not traced

All agreements and their extensions are to be appropriately filed and retained for future reference.

No Request and Approval for different working arrangements

The Executive Secretary is to submit a formal request indicating the reasons why she would like to opt for teleworking. The reasons presented are to be analysed and if deemed justifiable, a formal approval is to be issued. The new working conditions, as well as the minimum number of hours the officer is expected to report to the office, are to be formally documented.

Furthermore, working arrangements diverging from MCAST's normal office hours are to be granted for a definite period of time. New requests are to be raised by the respective employees once this term elapses and fresh approvals, if applicable, issued.

Perks enjoyed by MCAST Officers not formally authorised

The granting of free internet and telephone facilities is to be periodically reviewed to ensure that such benefits are still applicable and are in line with the College's policies. The amounts involved and the frequency of payments are to be clearly indicated in the respective officer's contract of employment, after obtaining approval from the appropriate level of authority.

MCAST should also consider placing thresholds on the amounts which can be expensed on telephone bills, particularly in view of the fact that even officers in the Public Service occupying senior positions are entitled to a maximum amount per annum.

Part-time Lectures

Payments for Lectures delivered not backed by Students' Attendance Sheets and vice-versa

Institute Directors are to ensure that adequate checks are performed before endorsing the lecturers' claims for payment and proceeding with the reimbursement.

Lectures delivered not covered by Contracts of Service

Claims for payment by lecturers are not to be processed unless their engagement is covered by a valid contract of service. Existing contracts are to be formally extended to cover any *ad hoc* lectures/courses which are necessary, but were not established at the time of entering into the original agreement with the respective lecturer(s).

Inconsistent Signatures on Lecturer's Claims for Payment

Management is expected to investigate this irregularity and subsequently submit an explanation to NAO.

Furthermore, Institute Directors are to ascertain that all claims for payment are thoroughly verified prior to these being certified correct and forwarded to the Finance Department for reimbursement.

Petty Cash

Maximum Value of each Petty Cash Expense not defined

The petty cash float, as the name implies, is to be utilised only for petty expenses. The officers responsible for managing cash are to ensure that items purchased and paid in cash do not exceed the maximum amount established in the GFRs.

In addition, purchase of goods or services which are usually of considerable value, such as car maintenance, are to be procured through the normal channels and payment effected upon the presentation of an invoice.

Petty Cash Balances not physically counted by an Independent Officer

Independent and regular reconciliation of the balance as per petty cash records and the physical cash balance is to be performed and evidenced.

Independent Verifications to validate Expenditure not evidenced

Petty cash expenditure is to be verified by an independent authorised officer. Checks carried out are to be duly documented and endorsed by the officer performing them.

Shortcomings in managing Petty Cash

MCAST's Finance Department is to refrain from granting petty cash float to Institutes and Departments unless the petty cash records covering the previous period and the supporting fiscal receipts are certified correct by the respective Director.

In addition, officers being refunded are to be requested to sign on petty cash vouchers as proof of reimbursement. These petty cash vouchers, which should be pre-numbered, are also to include a description of the expense being incurred and its cost. The signed fiscal receipts supporting expenditure incurred are to be consecutively numbered and attached to the respective petty cash voucher.

Incomplete Information presented in Petty Cash Records

The Finance Department is to prepare a template for recording expenses charged to the petty cash float. Details are to include a description of the expense, the fiscal receipt date and reference, amount, as well as the account/category in which the expense will be posted. This template is to be distributed to all Institutes and Departments to ensure a harmonised reporting of petty cash expenditure.

Other Matters

Late Payment Charges incurred on Telephone Bills

Telephone bills are to be forwarded to the respective Institute Directors as soon as they are received. The verification and certification processes are to be hastened to ensure that the bills are paid before the due date. This should ascertain that late payment charges, which impose an unnecessary burden on MCAST's finances, are, as far as possible, avoided.

Compliance Issues

Audited Financial Statements not fully compliant with International Financial Reporting Standards and other Inaccuracies

The Financial Statements are expected to show, at least, the minimum disclosures required in terms of the International Financial Reporting Standards (IFRSs) to fairly present the entity's financial position. This also includes a description and purpose of each reserve in the Statement of Financial Position.

Management is to consider reviewing the depreciation rates currently being applied to reflect a realistic rate at which assets are being depleted and the time frame by which they are expected to be replaced.

Defaulters not reported to the VAT Department

The College is to ensure that it is invariably issued with tax receipts by all suppliers. Defaulters are to be reported to the VAT authorities are per standing regulations. Furthermore, business with persistent fiscal defaulters is to be discontinued.

In the event that MCAST identifies no VAT defaulters, a 'nil' return is to be submitted to the VAT authorities, as per the foregoing Circular.

Management Comments

Management concurred with the majority of the observations and commented that the College has taken immediate action to outsource the exercise of preparing a formal manual of policies and procedures, as well as the establishment of an internal audit function. Most of the recommendations made by NAO have been accepted and action has already been taken to comply accordingly.

However, Management expressed its reservations on NAO's observation relating to the engagement of consultant, claiming that it had advertised the post and carried out interviews on at least three occasions over a period of 12 months, but no suitable candidate was identified. It was then that MCAST sought the services of the consultant directly on the basis of Article 19 of the Public Contracts Regulations.

As regards the audited Financial Statements not fully compliant with IFRSs, it is felt that Management's response was not satisfactory. Management submitted the following remarks:

- The movement, as well as the function of 'Other Reserve' are fully detailed in the Financial Statements.
- The difference of €13,254 is immaterial and the necessary adjustments will be effected.
- The Board of Governors remain committed to review, at least at each financial year end, the residual value and useful life of the College's assets, while accounting for any possible expected changes accordingly.
- There is no departure from the requirements of IFRSs, since the descriptions used and the ordering of line items or aggregation of similar items may be amended according to the nature of the entity and its transactions, as per IAS 1.

In its reply to NAO's Management Letter, MCAST stated that the matter of inconsistent signatures on a lecturer's claims for payment was being investigated, and committed itself to report back to NAO by the end of May 2011. However, up to the writing of this report, the results of this investigation were not forwarded to NAO.

Management also did not indicate whether the return of fiscal defaulters will be sent to the VAT Department, as required by MF Circular No. 5/2002.

Fejda Programme and Jeanne Antide Home

Background

Conservatorio Vincenzo Bugeja (CVB) provides residential care services through *Fejda* Programme and Jeanne Antide Home, hereafter referred to as the 'Homes', to adolescent girls with psychological, emotional, behavioural and/or social difficulties.

The running of the Homes is regulated by the Agreement, signed on 29 March 2001, between CVB Trustees and the Government of Malta. Such Agreement, effective for an initial 10 year period commencing from 1 January 2001 and automatically renewed for further periods of five years, stipulates that the managerial responsibility for the running of the Homes is wholly entrusted to the Board of Management (BOM). The said Agreement empowers BOM to employ a religious community and/or an adequate number of social workers and support staff to cater for the needs of the residents, and to take the necessary action for the proper conduct of the Homes.

BOM is made up of six members and a Chairperson. Three of these members and the Chairperson are nominated annually by the Trustees, whilst the other members are nominated by the Minister responsible for Social Policy.

Audit Scope

The Financial Statements of the Homes are the responsibility of BOM. The objective of the audit conducted by the National Audit Office (NAO) was to ascertain that:

- the Income and Expenditure Account and the Statement of Financial Position represent a true and fair view of the financial position as at 31 December 2010 and of its operations for the year 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

Lack of Communication between the Ministry of Education, Employment and the Family and the Board of Management

During a review of BOM minutes of meetings, NAO came across the below-mentioned situations evidencing lack of communication between BOM and the Ministry of Education, Employment and the Family (MEEF).

The Ministry provided the Service Executive (SE), intended to head the Homes, at its own expense. However, the Board members expressed their strong exception on any appointments without reference to BOM and without their approval.

During a BOM meeting, SE explained how she was acquainting herself with the Homes, how she wished to manage the Homes and provide counselling to the girls. However, the Chairman pointed out that the existing post was a managerial position (and not that of a Counsellor) over which BOM had complete responsibility and authority.

The Chairman claimed that he was not being kept updated by SE. Additionally, in one instance, SE's vacation leave was approved by MEEF, without reference to the Chairman. The latter also objected to the fact that in her absence the Homes were left in charge of two Social Workers who could not adequately deal with such responsibility.

Appointment and Suspension from Employment of the Homes Programme Co-ordinator

During the audit, it was noted that an Officer was on special leave with full pay since the last week of May 2010, following Ministerial instructions. This led the Homes to disburse €22,880 covering the payment of her salary and national insurance contributions for the period 1 June 2010 to 15 July 2011.

A chronological summary of events is detailed hereunder:

A Homes Programme Co-ordinator (HPC), was appointed by BOM on 1 May 2009. In a communication addressed to BOM's lawyer, the Chairman stated that this appointment was made on the *"suggestion and almost insistence"* of one of the Board members appointed by the then incumbent Minister.

The same communication explained that the Officer was retiring from the Police Force and that her appointment, subject to a 12 month probation period, was made with the intention of alleviating the problem of undisciplined behaviour of the teenage residents. During a dedicated meeting, BOM[1] unanimously agreed to confirm her employment. In a communication dated 19 April 2010, the Chairman informed this Officer of BOM's decision to renew her contract.

Towards the end of May 2010, the Minister of Education, Employment and the Family requested the Chairman to suspend the Officer's employment with immediate effect, *"following allegations of abuse on the residents"*. Through the same communication, the Chairman was informed that the Minister would be setting up a Board of Investigation to look into the allegations.

In a later communication, the Minister made reference to the recommendations included in the report drawn up by the Board of Inquiry set up to investigate the allegations, and requested the Chairman to terminate the Officer's employment. The communication also referred to an attached termination of employment letter to be sent to the Officer in the name of the Chairman. However, the termination of employment letter which the Chairman sent to the Officer was different to that provided by the Minister, in that, it included a detailed extract of the conclusions of the Board of Inquiry and made reference to the instructions received from the Minister. This communication, dated 20 July 2010, also informed the Officer that her employment would terminate as from 31 July 2010, in accordance with the Minister's instructions.

Within a few days, the local newspapers reported that the Officer filed an application for the issue of a warrant of prohibitory injunction against the Minister, in a bid to stop the termination of her contract, on the basis that she was never given the chance to defend herself.

The lawyer representing BOM suggested that HPC is informed that she is to appear before a Disciplinary Board and was to be informed of all evidence against her. The Chairman was notified by the Ministry that BOM had to appoint a Board of Discipline and that a report was being drawn up and would be made available to the latter.

The lawyer also suggested that the Officer was to be notified that the measure, referred to in the communication dated 20 July, is considered suspended and that she would remain on special leave with full pay until the disciplinary process is concluded. In a communication dated 28 July, the Officer was informed accordingly following the approval of the lawyer's advice from the Ministry, as communicated by MEEF Head of Secretariat.

In October 2010, the Officer withdrew her application on the basis that she would remain in paid employment and be guaranteed that she would not be dismissed without disciplinary proceedings.

The Chairman informed MEEF Permanent Secretary that the lawyer representing the Officer suggested that a sum equivalent to a year's salary would settle the position amicably and requested whether this arrangement would be acceptable to the Ministry. Following a further reminder from BOM lawyer, the reply received by the then Acting Permanent Secretary (MEEF) stated that *"…… it is in the interest of all parties to ensure a proper, equitable and transparent solution is found to this matter"*. During the audit, the Chairman confirmed that no further reply was received from the Ministry.

NAO reviewed all available documentation and noted that the latest communication was dated March 2011. In July 2011, NAO enquired whether the Officer would be suspended on full pay indefinitely and whether there were new developments. The reply received from the Chairman was inconclusive.

Following a notification by this Office, the Head of Secretariat replied that during the last months the respective lawyers held various meetings with the aim of reaching an arrangement. As a result, the lawyer representing BOM was to write an official letter to the Officer to confirm whether she was in agreement to take up this arrangement.

The following day, BOM's lawyer informed the Officer that she could not remain on full pay indefinitely. She was

[1] A then Government appointed Board of Management member was not present for the meeting.

given the option of resigning with effect from end July 2011, or face disciplinary proceedings.

Subsequently, the Officer's lawyer informed CVB that his client was not resigning from her post and was prepared to face the proceedings. He also mentioned the fact that his client was never informed on what grounds she was suspended and about the disciplinary proceedings.

On a later date, BOM's lawyer informed the Chairman and the Head of Secretariat that he withdrew from the case as he had no wish to be involved further.

Appointment of the Service Executive not formalised

The Homes are headed by a SE, whose appointment has not been officially formalised, even though the current post has been held for over a year. Queries made by NAO in this respect remained unanswered by the Ministry and only a transfer form effective as from 3 June 2010 was made available.

Although SE's salary was payable from the Directorate of Educational Services since she is employed as a teacher, the Chairman of BOM was instructed to pay additional allowances, every four weeks, from the Homes' annual Government subvention due to her added responsibilities.

However, in actual fact SE was only paid the equivalent of six weeks' allowances directly from the Homes since occupying such post. Subsequently, the allowances started to be paid from Treasury through the Multi-payment Voucher system[2]. It also transpired that Final Settlement System (FSS) tax deductions were only made from May and June 2011 allowance payments.

According to SE, the actual allowance which she is receiving is 35% less than what she was offered when she was given verbal instructions to take up her current post.

Control Issues

Opportunities for improvement were identified in the following areas:

Expenditure Analysis not made available posing a Limitation on the Audit Scope

An analysis of the expenditure, which collectively amounted to €485,426, was not made available. According to BOM, the data requested could not be extracted due to the inexistence of an *ad hoc* accounting package. This posed a limitation on the scope of the audit as the testing of expenditure could not be performed.

During a meeting with NAO officials, the Chairman raised his concern about inefficient disbursement of funds due to a lack of budgeting. Due to the fact that NAO was not in a position to perform detailed testing on expenditure, the Chairman's concern could not be addressed.

Back-Ups not stored Off-site

Copies of computer back-up information are not kept off-site. This exposes the Homes to the risk of business disruption in the case of a system breakdown.

Shortcomings related to Employment Contracts, Payroll and Final Settlement System Returns

Testing on employment contracts, FSS returns and payroll revealed the following weaknesses:

- Two consecutive contracts of employment, for the provision of supervisory services to the care workers, were entered into with an individual, hereafter referred to as the 'Supervisor'. However, the Supervisor was not included on the payroll and was paid for services rendered following the presentation of an invoice. From the contents of a communication between the Chairman and the Supervisor, it was evident that both the hourly rate and the hours worked were being disputed.

  The Chairman was requested by NAO to clarify whether the increased hourly rate was discussed and agreed to by BOM prior to the signing of the second contract. The reply received was inconclusive in this respect. Instead, the Chairman confirmed that during a BOM meeting, it was decided to give the Supervisor three months notice to end her contract. Subsequently, the Officer will be offered a new agreement, for 20 hours per month, at the hourly rate stipulated in the first contract.

- The employment contracts of 12 employees were expired. In a separate case, the contract available referred to a different post to that presently held by the Officer. In another instance, the contract referred to part-time employment, when the Officer was confirmed to be on full-time employment. No contract of employment was made available in one instance.

[2] The allowance was paid from Ministry for Social Policy Vote 22 Item 5325 (August to December 2010) and Ministry of Education, Employment and the Family Vote 20 Item 5325 (January to June 2011).

- A reconciliation by NAO of the payroll expenditure recorded in the Financial Statements and the amounts declared in FSS returns was inconclusive. No reply was received from the Financial Consultant even though several requests for clarification were sent by NAO.

- The outgoing Executive Officer confirmed that FS4 forms, being the payee status declarations, were not available for any of the Homes' employees. However, one such form was traced in a personal folder during audit testing.

Errors in the Computation of Salaries

A new collective agreement, effective from 1 January 2010, pegged the salaries of the Homes' employees with the Government salary scales. During a review of BOM minutes, reference was made to the fact that seven employees had been overpaid. Upon enquiry, MEEF Head of Secretariat explained that apparently these salaries continued to be issued in accordance to the salaries applicable prior to the signing of the collective agreement.

Additionally, a problem arose with the Handyman's salary since it did not fall in line with the scale relevant to his grade. The Head of Secretariat informed NAO that this matter will be discussed with BOM.

Shortcomings relating to Bank Deposits and Reconciliations

Testing on bank transactions revealed the following shortcomings:

- A review of supporting documents confirmed the source of each deposit effected during the year in the Homes' bank account, with the exception of €165.

- Bank reconciliations are only carried out annually. Two cheques issued during 2010, collectively amounting to €1,061, remained unpresented as at audit date i.e. June 2011.

Cash held by the Service Executive

Subject to the explanations received, a reconciliation of the cash held by SE in July 2011 was satisfactory. However it was noted that a cheque for €2,000 was given by BOM to SE to ensure readily available liquidity for urgent requirements. This cheque was cashed in order to procure a number of items valued at €1,430, and the remaining balance was added to the cash held by SE. It transpired that most of the expenses related to a Halloween party, clothing, an employment advert, and food and group outings. None of these were deemed by NAO to be of an urgent nature.

SE also explained that an amount belonging to an ex-resident who left €150 in the custody of SE on 16 February 2011 was also included in the cash balance. A document forwarded to this Office stated that the amount would be returned when the resident left the Home. However, this Office did not receive any explanation providing the reason why the money was not duly returned.

Re-imbursement of Handyman's Salary

Revenue recorded in the Financial Statements included contributions received from the Board of Trustees (BOT) towards the Handyman's salary.

The reconciliation of the amounts recorded in the Financial Statements with the employee's payslips and BOT remittance advices was inconclusive. Although NAO requested an explanation about the calculation of the amounts recognised in the accounts, this was not received, hindering audit testing.

The Chairman confirmed that BOT stopped reimbursing part of the Handyman's salary as from 2011.

Compliance Issues

Absence of a Fixed Assets Register, Room Inventory Lists and Physical Marking

Assets located in Jeanne Antide Home are owned by BOT whilst those located in the premises housing *Fejda* Programme were mostly either procured through Government funds or donations.

A fixed assets register was not available for assets located in the *Fejda* wing. Room inventory lists were not compiled and none of the inventory items were physically tagged.

Shortcomings regarding the use of Vehicles

The Homes had six vehicles at their disposal, four of which were registered in the name of CVB, whilst the rest were Government-owned. NAO was informed that the maintenance, insurance and running costs in respect of all vehicles are disbursed from the Homes' funds.

As a result of a number of weaknesses in the log books, NAO could not confirm whether the use of vehicles was made solely for official purposes. The following issues were noted:

- Log books were available for all the vehicles with the exception of the one purchased during 2011. However, such log books were not in accordance with the requirements stipulated in the Public Service Management Code (PSMC) Appendix 8.I, implying lack of control over fuel consumption.

- Information recording journeys performed in the log books was sometimes incomplete or not available.

- Monthly certification forms as per Appendix 8.II were not traced in the log books.

- Fuel purchases were not recorded in the log books.

Failure to introduce Purchase Orders

BOM minutes of meetings confirmed that in January 2010, the members decided to introduce Purchase Orders. During another meeting held later in the year, reference was made to the fact that Purchase Orders had to be raised for all *"commercial acquisitions"*. However, NAO confirmed that the procurement system still does not involve the use of Purchase Orders.

Recommendations

Key Issues

Lack of Communication between the Ministry of Education, Employment and the Family and the Board of Management

Lack of communication creates undue conflict which may distract the involved parties from reaching the Homes' ultimate goals. In view of this, key decisions should be taken following appropriate communication, and if possible in agreement between all parties concerned. Additionally, constant liaison regarding ongoing issues should be encouraged in order to prevent unnecessary misunderstandings. This will ensure that all energy is focused on meeting the objectives outlined in the Homes' Mission Statement.

Appointment and Suspension from Employment of the Homes Programme Co-ordinator

The procedure for the appointment and/or termination of employment of officers is to be made in accordance with relevant regulations in order to ensure transparency, and to avoid the unnecessary legal complications and expense.

Appointment of the Service Executive not formalised

New appointments are to be formalised prior to an officer reporting in another post. This is required in order to ensure agreement between the parties concerned when it comes to the job description, remuneration and terms and conditions related to the particular post. Payments for one's services are to be wholly issued from one source and reimbursement in part or in full is to be made, where applicable.

Control Issues

Expenditure Analysis not made available posing a Limitation on the Audit Scope

BOM is to implement adequate systems to ensure proper and updated accounting records, possibly through the re-organisation of the Accounting Function.

Back-Ups not stored Off-site

Back-ups are to be stored in a location away from the system to which they relate so that they are safe from any hazard if the live system is affected. They should be stored in secure, lockable cabinets or in a safe.

Shortcomings related to Employment Contracts, Payroll and Final Settlement System Returns

BOM is to decide whether the Supervisor is an employee of the Homes or otherwise, and regularise her position accordingly. Valid contracts of employment are to be drawn up for all employees in order to formalise employment relationships.

It is also imperative that the amount of salaries recorded in the Financial Statements is reconciled at year end to FSS returns. Such reconciliations should be readily available to ensure the smooth conduct of future audits. FS4 forms should be drawn up with respect to all employees.

Errors in the Computation of Salaries

The computation of salaries is to be verified thoroughly and the necessary approvals obtained, prior to effecting payment. NAO is to be informed of the outcome of the decision regarding the Handyman's salary and also regarding the settlement of arrears and overpayments.

Shortcomings relating to Bank Deposits and Reconciliations

Supporting documentation for all transactions is to be properly filed for future reference. NAO recommends that bank reconciliations are performed on a monthly basis to ensure completeness and accuracy of bank receipts and payments recorded.

Cash held by the Service Executive

Funds made available by BOM for a specific purpose are to be disbursed only in accordance with the Board's intentions. NAO still requires an explanation regarding the money which was not returned to the ex-resident.

Re-imbursement of Handyman's Salary

Information substantiating the amounts recorded in the Financial Statements is to be adequately filed in the Homes' offices for ease of reference.

Compliance Issues

Absence of a Fixed Assets Register, Room Inventory Lists and Physical Marking

A fixed assets register is to be compiled together with updated room inventory lists and each inventory item physically marked with a consecutive identification number as per Ministry of Finance Circular No. 14/99.

Shortcomings regarding the use of Vehicles

As the running costs of all vehicles are disbursed from public funds, adequate records are to be kept in accordance with PSMC, in order to ensure proper accountability.

Failure to introduce Purchase Orders

Efforts are to be made in order to, whenever possible, issue Purchase Orders prior to effecting any purchases so that BOM's decision is adhered to.

Management Comments

Management comments were not received by the reply submission deadline.

Students' Maintenance Grants

Background

The Students' Maintenance Grants (SMG) are regulated by Legal Notice (LN) 372 of 2005, as amended by LN 424 of 2007. These regulations are applicable to all those students who are following a full-time day course in an approved Post-Secondary or Vocational Education and Training Institution in Malta, as well as to full-time students following an undergraduate, degree, Doctor of Laws (LL.D.) or Doctor of Medicine (M.D.) course at the University of Malta.

In order to be eligible to a maintenance grant, students accepted as regular students in a day course of studies by a Post-Secondary, Vocational Education and Training Institution or University must satisfy the following criteria:

- Be Maltese citizens, or at least have one parent who is a Maltese citizen.
- Have resided in Malta for a period of not less than five years from the commencement of the relative course of studies.
- Have completed the term of compulsory education.
- Be not more than 30 years of age at the commencement of the course.
- Be attending the course regularly and making satisfactory progress.

The amount of grant to which the students are entitled to depends on the course being undertaken. Furthermore, students who have proven hardship may qualify for a supplementary maintenance grant. The amount of this grant also depends on the type of course followed by the eligible student.

Students who repeat a year of their chosen course of studies are not entitled to a maintenance grant during the year that they repeat. Similarly, a student forfeits the right to receive the maintenance grant (or part thereof) if his progress is deemed unsatisfactory, or is not attending the course regularly.

The SMG budget allocation for 2010 amounted to €21,450,000, an increase of €443,000 over the previous year's budget. According to the Departmental Accounting System (DAS), in 2009, expenditure on SMG exceeded the original budget by €8,924 and a further €388,697 were approved but still unpaid by year end. On the other hand, in 2010 the original budget was exceeded by €960,454. As expected, the majority of funds, i.e. over 98%, related to the actual maintenance grants paid to students.

The Electronic Transfer of Funds System for the Students' Maintenance Grants (The Smart Card Scheme)

The Smart Card Scheme, introduced in 2001, is available to those students eligible to receive maintenance grants. It is intended to partly cover expenses related to educational material and equipment. Students can use the card at any one of the retail outlets authorised by the Students' Maintenance Grants Board (SMGB). Balances in the Smart Card at the end of the scholastic year are carried forward to the following year, in addition to the new entitlement for the year, which is established according to the course being undertaken.

The provision of the Electronic Transfer of Funds System was awarded to a company at a total contract value of €66,268, in addition to a handling fee, originally of 0.65%, on the total turnover made by the Smart Cards, following the issue of a tender in 2000. Although according to an amendment to the tender document, the System was intended to be for the duration of three academic years, since its introduction, the management of the Scheme has been outsourced to the same service provider. Total payments to this company in 2010 amounted to €166,869 (Value Added Tax (VAT) included), while another €8,786 was expensed on inspections, carried out during the foregoing year, intended to curtail abuse of the Scheme. Initially, 50 retail outlets participated in the Scheme, with the number increasing to over 450 by 2011.

Students' Maintenance Grants Board

SMGB was established through LN 165 of 1999, amended by LN 372 of 2005. It is responsible for managing the allocation of the students' maintenance grants and to advise the Minister responsible for education on policy issues relating to these grants.

The functions of the Board mainly include:

- managing and monitoring the effective allocation and payment of maintenance grants to students;
- formulating and regularly reviewing procedures regarding the assessment allocation, payment and entitlements for the receipt of maintenance grants;
- establishing the criteria, as well as assessing, deciding and reviewing applications for supplementary maintenance grants; and
- monitoring retail outlets accepting students' card to curb and eliminate abuses.

The Board is appointed by the Minister responsible for education and is composed of a Chairperson and seven members.

Audit Scope and Methodology

The scope of the audit was to ascertain the correctness of amounts paid from Line Item 5364 / – Students' Maintenance Grants under Programmes and Initiatives during Financial Year 2010. The completeness, accuracy and reliability of records kept by the Ministry of Education, Employment and the Family (MEEF), as well as the monitoring by the latter, to ensure that the grants were utilised for their intended purposes, was also verified.

Audit work performed mainly covered a sample of maintenance grants issued to students attending Post-Secondary Colleges during scholastic year 2009/2010. Testing included ensuring that maintenance grants were paid only to those students actually continuing post-secondary education, and that no grants were issued to students once these had resigned or terminated their course. Due to time constraints, no testing was carried out on maintenance grants received by students attending the Malta College of Arts, Science and Technology (MCAST) and the University of Malta.

Given that a substantial part of the allocation for SMG was expensed on payments to retailers for purchases made by students through Smart Card[1], the management of the Scheme was also reviewed during the audit. Payments effected to the Management Company in 2010 were identified and analysed, while any supporting documentation necessary to ascertain the correctness of payments effected was requested from SMG Section. Further testing was performed to compare the services for which SMGB was actually being charged, to those listed in the initial Bill of Quantities.

Moreover, since according to the Students' Maintenance Grants Regulations, SMGB is responsible for monitoring retail outlets accepting students' card in order to control abuses, audit testing was also carried out to verify whether the inspections were performed in an efficient and effective manner.

Key Issues

Ineffectiveness of the Smart Card Scheme

Due to the considerable number of shortcomings revealed by the audit, a number of which have already featured in the Report by the Auditor General for Financial Year 2003, the National Audit Office (NAO) considers that the administration and monitoring of the Scheme is rather ineffective and the costs in administering the Scheme could be outweighing the benefits derived. This is particularly due to the fact that purchases made by students using the SMG Smart Cards are not itemized. Therefore, there is no sufficient proof that funds are being used on educational material and equipment, as specified in the pertinent legislation.

An attempt to identify whether students left any unutilised balances in their Smart Card account following the termination of their course of studies proved futile, since SMG Section was not in possession of such information.

Furthermore, it is unclear whether a number of retail outlets participating in the Smart Card Scheme, some of which were paid substantial amounts during 2010, stock any items considered to be of an educational nature. In three cases in particular, the category (car hire and pharmacy) of the business itself sheds doubt on the respective retailers' eligibility to participate in the Scheme.

During 2010, payments to retail outlets which, according to the list of Smart Card Scheme participants obtained from the Management Company are categorised under sportswear, in aggregate totalled €942,393. This is

[1] During 2010, almost €6,298,000 was paid to retail outlets participating in the Smart Card Scheme.

equivalent to 15% of the total payments effected to retailers in the year under review. It was also noted that the percentage of funds allocated to the Scheme expensed on sportswear is on the increase, since, as reported in 2009[2], purchases of sports clothes and sports shoes effected by the Smart Card during scholastic year 2008/2009 amounted to 11% of the total payments to Scheme participants.

Inadequate Monitoring of Retail Outlets accepting the Smart Card

According to the Students' Maintenance Grants Regulations, the functions of SMGB include the monitoring of retail outlets participating in the Smart Card Scheme in order to curb abuses. This was expected to be achieved through monthly inspections carried out by officers appointed by the same Board. An aggregate of €8,786 was paid to inspectors for verifications performed during 2010.

However, a review of the inspection reports made available to NAO and other related documentation, evidence that the monitoring carried out during 2010, was inadequate and unsatisfactory. The following are some of the shortcomings noted:

a) The fiscal receipts, evidencing the alleged non-educational items purchased during the inspections and paid by the Smart Card, were not retained by SMGB, since the Board maintained that this is not necessary. In fact, it was reiterated that once the retailer is warned of the infringement and recognises his irregularity, the receipts are disposed of. Thus, neither the date and time when the inspections were carried out, nor the cost of the items purchased, were available. Consequently, no evidence could be obtained that the inspections were actually performed.

b) SMGB claimed that items of considerable value falling outside the Scheme, purchased by the inspectors, were returned to the retail outlets. However, audit testing carried out on a sample of five alleged goods bought by inspectors revealed that no payments were withheld to the retailers, neither in the month during which the said infringement was noted, nor the subsequent month. Therefore, it could not be ensured that items purchased, if any, were actually returned to the shop.

c) The report for September 2010 submitted by an inspector alleged that the latter purchased a camera from one of the retailers visited. However, according to the supplier's statement, no transactions were effected by Smart Card during the foregoing month. This again raises doubts on whether the inspections were performed at all.

d) Fourteen out of the 20 retail outlets listed on the May 2010 report endorsed by another inspector also featured, in the same order, in the report for the following month signed by the same inspector. The validity of inspection reports is once again questioned, since it is highly unlikely that the same officer was intentionally instructed by SMGB to revisit 70% of the retail outlets targeted to be inspected in the previous month.

e) On eight instances, the inspectors reported that the respective outlet's Smart Card machine was suspended. This implies lack of co-ordination between officers at SMG Section and the inspectors, resulting in a waste of time and resources.

f) Inspections performed in 2010 were not properly evidenced in the reports submitted. The following shortcomings were noted, again casting doubt on the validity of these reports.

   i) The date and time of inspections was not evidenced in any of the reports.
   ii) The reports did not bear the date when they were compiled by the inspectors.
   iii) Almost all reports failed to indicate the non-educational goods the inspectors tried to purchase from the retail outlets.

   Furthermore, the situation is considered to have deteriorated in 2011, since, for example, the reports submitted for inspections carried out in April this year, which are undated, do not even evidence the name or signature of the officer performing the inspection.

Issues related to the Management Company

a) No agreement was entered into between the then Ministry of Education and the Management Company, consolidating the latter's engagement. This was also confirmed by the Director Corporate Services (DCS) within MEEF. Only the letter of acceptance dated 21 February 2001, informing the service provider that the offer was accepted, and that the applicable rates were those as indicated in the Bill of Quantities submitted with the offer, was available.

[2] Source: Article titled 'Negligible student abuse of smart card' featuring on The Times of Malta on Tuesday, October 20, 2009.

b) The Smart Card Scheme, which was initially intended to cater for 8,000 students and 50 retail outlets, serviced more than 14,000 students and 300 outlets by March 2006. This led SMGB to make a request to the Contracts Department to extend the tender through a negotiated procedure. According to the minutes of the General Contracts Committee, held on 9 May 2006, the latter granted an extension of one year plus 'an upgrade of 5%' (to cater for increased students and retail outlets) up to the end of academic year 2006/2007. In the meantime, SMGB was to undertake studies for the issue of a new tender. However, documentation, evidencing the formal extension to the Management Company's initial engagement, as well as the studies supposedly carried out by SMGB, was not made available. Moreover, the service provider was still responsible for the administration of the system, at least four years later, up to scholastic year 2010/2011.

c) During a meeting held with SMGB's Chairman, NAO was informed that the Management Company's contract extension was discussed with the Minister responsible for Education, and then taken at Cabinet level, with the latter deciding to extend the contract on a yearly basis until an alternative solution was found.

Extracts of these Cabinet decisions were requested from both SMGB and DCS' Office for audit purposes. Although, the latter confirmed that the documentation was requested from the Cabinet Office, no reply to NAO was forthcoming by the time of writing of this Report.

d) Following the issue of the Letter of Acceptance, the Management Company duly presented a Bank Guarantee, which was bound to expire on 31 December 2001, for the amount of €6,627, being 10% of the original contract value.

On 5 April 2002, the then Secretary to SMGB informed the Contracts Department that the Management Company completed the contract and all their obligations, to the full satisfaction of the Board. Consequently, the Bank Guarantee was returned to the service provider's bank to be cancelled. However, in actual fact, the Management Company continued to provide an uninterrupted service to SMGB, at least up to scholastic year 2010/2011. Therefore, between the period April 2002 and August 2011 (i.e. at time of audit), no Bank Guarantee was in place to safeguard SMGB's interests and to ensure that the service provider fulfils his contractual obligations.

Variations to the Bill of Quantities

As reported earlier on, the original Bill of Quantities for the provision of the Smart Card Scheme attached to the Letter of Acceptance issued in 2001, indicated the contract value as €66,268, out of which a substantial amount was related to set-up costs. During 2010, payments effected to the Management Company for the administration of the Scheme totalled €166,869 (VAT included). Apart from an adjustment due to the change in VAT rate from 15% to 18% and the substantial increase in the number of eligible students and retail outlets participating in the Scheme, the difference in amounts paid was a result of variations from the original tender document and the provision of new services not included therein, as outlined hereunder:

a) According to the Bill of Quantities, the Management Company was to charge €0.23 (Lm0.10) (VAT excluded) per new Smart Card. However, during scholastic year 2010/2011, SMGB paid €0.55 (VAT excluded) for each card issued to Junior College and University students, and €0.68 (VAT excluded) for the supply of cards intended for MCAST students. The invoice failed to explain the difference in rates applied.

b) The cost for replacement of cards was also set at €0.23 (Lm0.10) (VAT excluded) in the Bill of Quantities, but was charged at the rate of €1.05 (VAT excluded) in the year under review.

c) In 2001, SMGB agreed to pay the Management Company an operation and maintenance handling fee equivalent to 0.65% of the total turnover of the Smart Card Scheme. Upon enquiry by NAO, SMG officers confirmed that the maintenance fee was increased to 1.1%, claiming that the difference was approved by the Contracts Department. Apart from the fact that no authorisations were provided as evidence during the audit, in the sample of four maintenance fees reviewed, the charge ranged from 1.33% to 1.41% of the total turnover. Although the increase in the percentage charged appears negligible, the ultimate effect on the amounts invoiced each year is material when calculated on turnover.

d) The Management Company's invoices for the year under review included items which did not feature in the original Bill of Quantities, such as, rental of equipment and staff, rental of office space, back office handling fees, usage of printer colour ribbons and web access for stipends office. In aggregate, SMGB paid €57,352 (VAT included) in respect of these charges during 2010. No documentation was traced to the files reviewed justifying these items invoiced by the service provider.

Although NAO officers were informed that variations related to the upgrade of the system were always authorised by the Board, no documentation evidencing such approvals was traced to the files reviewed. Furthermore, unauthorised variations to the original Bill of Quantities were already brought to SMGB's attention during NAO's audit on SMG for academic year 2002/2003. However, the recommendations made were not taken on board, given that the situation has since then deteriorated.

Lack of Ownership over the Smart Card System

A review of SMG Section's involvement in the Smart Card Scheme, particularly as regards the retention of documentation and independent verifications performed on information held by the Management Company, revealed that the ownership of the Scheme was transferred to the latter.

On various occasions SMG Section was not in possession of information relating to the Scheme which was requested for audit purposes. Consequently, the documentation had to be obtained directly from the service provider.

Control Issues

Opportunities for improvement were identified in the following areas:

Maintenance Grants

Overpaid Maintenance Grants

a) Information obtained during the audit revealed that Giovanni Curmi Higher Secondary School failed to inform SMG Section of the respective students' resignation on a timely basis. Thus, these individuals continued to be issued with a grant, leading to the undesired consequence for SMG Section of having to recoup overpayments effected. Apart from the risk that these amounts may be never recouped, chasing overpaid students constitutes a waste of time and resources for the Ministry.

b) A similar situation also prevails at the University of Malta. Although no actual testing was carried out at the University, NAO was notified that no attendance sheets are kept by the different Faculties. Therefore, very often, the Stipends Office becomes aware of students' resignations only when the latter do not sit for their mid-year or final examinations. Consequently, the maintenance grants continue to be issued and students have to be requested to reimburse overpaid amounts. This has resulted in substantial amounts being recorded under arrears of revenue due to the University at the end of the financial year. In fact, the latter reported closing balance of overpaid stipends totalling €127,640 as at 31 December 2010 (further details are portrayed under Corporate Issues in this Report).

Misplaced Note leading to Overpayments not recouped

During 2010, two students, one attending Giovanni Curmi Higher Secondary School and the other awarded an undergraduate scholarship, were both requested to reimburse the extra amounts paid to them since they were overpaid maintenance grants. An email relating to one of these students, sent by the Chairman of the Board to SMG Section, instructing the latter not to press for charges as there was a misunderstanding, was inserted in the personal file relating to the other student by mistake. Consequently, no further action was taken to recoup the overpaid maintenance grants from the first student, and the file was closed.

This error was brought to SMG Section's attention during the audit, and the case was reopened in 2011, with the aim of recouping the overpaid amounts.

Inconsistent Treatment in case of Reimbursements due from Students

A group of six students[3], who were awarded a scholarship, were still issued with a monthly maintenance grant of €146.75, as well as with a one-time Smart Card top-up amounting to €1,397.62 to each student. Apparently, these students were not entitled to the maintenance grants since, on 17 May 2010, SMG Section received instructions from the Ministry not to effect further payments to the students. In addition, following a Malta Government Scholarship Scheme Board meeting, it was decided that refunds were to be requested from these students. As a result, notices were sent to the six individuals, asking the latter to reimburse the extra grants paid to them.

However, on 28 October 2010, in line with what has been reported in the preceding observation, SMGB's Chairman directed officers at SMG Section not to press for a refund from one of the students, claiming that the latter was not to pay for the mistakes made by the Ministry. Similar instructions, issued two months later, were traced to the files of another three students. The remaining two students had refunded all the grants by this date. Thus, those who were not prompt in their repayment ended up better off.

[3] Almost all files relating to reimbursements requested from students were reviewed by NAO. However, particular focus was placed on the case of these six individuals.

NAO officers were verbally informed that the decision not to chase students to reimburse the maintenance grants was taken by the Minister responsible for education. However, no evidence was made available supporting this claim.

Shortcomings in the Payment of Supplementary Maintenance Grants

Students applying for supplementary maintenance grants are required to fill in an application, justifying their eligibility, as well as provide supporting documentation. The application has to be approved by SMGB in order for the supplementary grants to be processed. Audit testing performed on a sample of 33 applications for such grants revealed the following shortcomings:

a) No applications to receive supplementary maintenance grants were traced in the case of two students. Payments to both students totalled €2,092.35 during the scholastic year under review.

b) On another instance, the payment of supplementary grants was approved on the same day the application was received, even though no supporting documentation was provided by the student.

c) Three other cases were noted where, the application was raised and/or approved subsequent to the payroll date on which the monthly supplementary grants were actually paid.

Students receiving Maintenance Grants not traced to Records obtained from Colleges and vice-versa

a) Testing carried out revealed five students whose names featured on the list of students attending a Post-Secondary College, forwarded to NAO by SMG Section, and who were paid a stipend for the period chosen in the audit sample, i.e. 10 June to 7 July 2010. However, the students could not be traced to any of the independent source documentation obtained directly from the Colleges. Thus, the eligibility to receive maintenance grants and the correctness of payments effected in this respect, could not be ensured.

b) On the other hand, nine individuals, included in the lists of students obtained directly by NAO from the respective Colleges, were not paid a stipend during scholastic year 2009/2010. The non-entitlement to a maintenance grant could be justified if these students were repeating the scholastic year. However, the information forwarded by the Colleges failed to indicate the nine students as repeaters. Furthermore, none of the latter featured on the list made available by SMG Section.

Inspections performed at Retail Outlets

Number of Inspections performed on the decrease

a) Almost all inspection reports for 2010 provided for audit purposes indicate the names of 20 retail outlets, thus resulting in a total of 776 inspections targeted to be performed. However, only 667 outlets were claimed as having been visited, with the number of verifications actually carried out amounting to 656 (i.e. 85% of the targeted inspections). On the remaining 11 occasions, it was contended that the Smart Card machine was either suspended or out of order. This is equivalent to an average of 14 monthly inspections maintained as having been performed by each officer.

b) At time of audit, it was further noted that the average number of inspections in 2011 is on the decrease. For example, the reports submitted by three inspectors, covering verifications carried out in April 2011, show that two officers each performed 13 inspections, while the third visited only 12 outlets. Notwithstanding that a fixed monthly remuneration is granted to inspectors, these figures are well below the expected number of inspections to be performed each month, which is set to be between 15 to 20 retail outlets, as confirmed by SMGB Chairman.

Non-compliance by Retailers

a) In spite of inspections carried out and actions allegedly taken against defaulters, the inspectors' reports indicate an increase in the number of instances of non-compliance by retailers. For example, out of the 38 outlets claimed as visited in April 2011, inspectors reported that they managed to purchase 15 non-educational items, including a number of mobile top-up cards, fitness equipment, music compact discs, an entertainment magazine and a toy. This is rather on the high side when considering that a year earlier, i.e. April 2010, during the 69 inspections reported as having been carried out during the month, officers were sold only five items not falling within the Smart Card Scheme.

A further increase could potentially be registered if two out of the four inspectors, are replaced by persons of younger age to act as mystery shoppers, thus raising less suspicion amongst retailers.

b) Cases of reported non-compliance identified during inspections are claimed that they have been dealt with by SMGB on an *'ad hoc'* basis. As stated by the Board, when the infringement committed by the retailer is trivial, the latter is reprimanded verbally. On the other hand, if during the verifications performed, inspectors are sold non-educational items of considerable value, SMGB Chairman instructs the Management Company to switch off the respective retailer's Smart Card machine until further notice. However, no written records are kept of action taken against non-compliant retailers. SMGB maintained that it opted for a less bureaucratic and flexible *modus operandi* to keep control of the Smart Card Scheme.

Retail Outlets not subject to Inspections

a) During 2010, in order to determine which retail outlets were to be visited each month by the inspectors, the list of participants in the Smart Card Scheme was sorted in alphabetical order and divided in batches of 20 outlets. This was intended to ensure that most outlets were subject to two inspections yearly.

However, in the year under review, although planned, no inspections were actually carried out at least on 18 outlets. Occasionally, the reports indicated a number of instances where the shop was closed, but in the majority of cases, the reports failed to include any remarks. Payments to these outlets totalled €133,930 in 2010.

b) At least another 33 retail outlets featuring on the list of participants in the Smart Card Scheme forwarded to NAO were not included in any inspection report, implying that none of these outlets was subject to an inspection. In aggregate, these shops were paid €422,523 during the year under review.

c) Following a review of payments effected to retailers during 2010, NAO identified at least another 11 Scheme participants, in aggregate paid €76,145, which were neither included in the above-mentioned list made available by the Management Company nor featured in inspection reports.

d) The methodology of selecting retail outlets for inspections in 2011 was not consistent with that adopted during 2010. In fact, the April 2011 reports, which were forwarded by SMGB as an example, evidence that the outlets were chosen randomly, increasing the risk that a number of shops remained uninspected.

Inspectors' Engagement and Payment

Unofficial Appointment of Inspectors

Documentation shedding light on how the inspectors were engaged was not made available to NAO. When queried on the matter, SMGB confirmed that no call for applications was issued since inspectors, whose age during 2010 ranged from 22 to 58 years, were appointed by the Board as persons of trust.

Services provided by Inspectors not covered by Agreements

No agreements were entered into between MEEF and each inspector, consolidating the latter's engagement. The conditions of service, as well as the monthly remuneration, were communicated to the inspectors verbally by SMGB. The period during which the inspectors' services were required is also not known.

An aggregate of €8,786 was paid to these inspectors[4] for verifications performed during 2010. Payments were effected through Multi-payments and erroneously charged to the 'Stipends paid to Individuals' account. While no tax was deducted at source, SMG Section failed to inform the Inland Revenue Department of the income earned by these inspectors, as is the current practice across Government.

Inconsistent Payments effected to Inspectors

Although the Chairman of SMGB confirmed that inspectors are paid €230 monthly, a review of the Multi-payments issued to the latter for services rendered in 2010 revealed that three different remuneration rates were applied:

- €230 for inspections carried out in January, February and December;
- €233 for April to June inspections; and
- €250 for verifications performed between September to November.

Furthermore, no payments were issued in respect of inspections carried out during March 2010, with SMGB Chairman justifying the higher amounts paid to inspectors between April to November as part compensation for the March payment, which was erroneously overlooked.

[4] In January 2010, five inspectors were offering their services to SMGB. Between February and November, payment was issued to four inspectors, while as from December 2010, the number of inspectors went down to three.

Official documentation supporting the rate at which inspectors were paid was requested by NAO. However, this was not forwarded for audit purposes.

Payment to Inspector not supported by Inspection Reports

On 10 March 2010, SMGB issued payments to five inspectors for work carried out in the preceding two months. However, only four inspection reports were made available to NAO for each of these months. Therefore, it is unclear whether one of the inspectors, carried out any verifications at all.

Records held by the Students' Maintenance Grants Section

Possible Overpayment for Web Access

On 1 October 2010, SMGB was invoiced by the Management Company a total of €2,973.60 (VAT included) in respect of web access for stipends office, payable one year in advance. According to the invoice, the fee, calculated at the monthly rate of €14 (VAT excluded) per user, covered a total of 15 users, operating from the Institute of Health Care, Junior College, MCAST, Institute of Tourism Services, University and the Ministry of Education.

In order to verify the correctness of amounts billed, NAO requested the list of users from SMG Section. However, the latter obtained the list directly from the Management Company, implying that it was not in possession of this information. Furthermore, the list of SMGB users that was provided indicated only 13 officers having web access.

Inconsistent Information on Retail Outlets participating in the Smart Card Scheme

SMGB was not in possession of the list of participating retail outlets in the Smart Card Scheme. Consequently, this information once again had to be obtained from the Management Company. However, it was noted that alleged inspections were performed at least at eight retail outlets which were not included in the list of participants made available. Furthermore, NAO identified three retail outlets which, according to public knowledge, closed business prior to 2010, but which were still featuring in the above-mentioned list. It is unclear how SMGB planned inspections during 2010 without having the list of Smart Card Scheme participants in hand.

Information on Students not tallying with Records held by the respective Colleges

In comparing the lists of students attending Post-Secondary Colleges during scholastic year 2009/2010 obtained from SMG Section with the same information obtained directly by NAO from the respective Colleges[5], a number of discrepancies were noted, including the following:

a) On 25 instances, the dates on which the students terminated and/or resigned from the course, as recorded by the respective Colleges, did not tally with those noted on the list forwarded by SMG Section.

b) Similar discrepancies were noted in the College joining dates of nine students.

c) At least 10 students were classified under the incorrect College and/or course in the list provided by SMG Section.

d) A student was included in a paylist not pertaining to the course which she attended.

Incomplete Information presented on Colleges' Attendance Lists

Every four weeks, Colleges are required to forward information regarding their students' attendance to SMG Section, to enable the applicable deductions to be effected from the respective students' grants. However, the physical documents made available to NAO:

- very often failed to indicate the period covered by the attendance list;
- did not evidence the dates when the students were absent; and
- in most instances, included only the names of those students who were absent in that particular period, while excluding those students who were either present throughout the whole period or who resigned.

Recommendations

Key Issues

Ineffectiveness of the Smart Card Scheme

The competent authorities are encouraged to analyse this Scheme's cost-effectiveness. Unless the goals which

[5] Due to time constraints, this test was not carried out on students attending Giovanni Curmi Higher Secondary School (MATSEC Course) and Junior College first year students. Furthermore, given that testing performed on the remaining Colleges was not exhaustive, cases similar to the ones reported below cannot be excluded.

triggered the setting up of the Scheme are being achieved, one may consider simply adding the entitled maximum amount to the yearly grant payable on a monthly basis.

Inadequate Monitoring of Retail Outlets accepting the Smart Card

All fiscal receipts, evidencing purchases made by the inspectors, are to be attached to the respective reports submitted to SMGB.

SMGB is also to submit an accurate explanation, corroborated by supporting official documentation, on the policies adopted once inspectors manage to purchase goods not eligible for the Smart Card Scheme. All evidence is expected to be retained for audit trail purposes.

Furthermore, inspection reports, which are to be signed and dated, are to comprise the necessary details, including the name of the outlet, the date and time of the inspection, a brief description of the item purchased or requested and the sale value (where applicable).

Issues related to the Management Company

Without going into the merits as to whether any benefits are being derived from the current system, for fair competition, as well as to ensure that the best rates are obtained, the issue of a fresh call for tenders for the administration and maintenance of the Electronic Transfer of Funds System for SMG is encouraged.

The successful bidder's engagement is to be duly backed by a signed agreement between the parties involved, and supported by bank guarantees reflecting the actual contract value, where applicable. Both the conditions of service and the duration of the agreement are to be clearly spelled out. Any extensions to the original contract, which are to be approved by the competent authorities, are to be agreed upon by all parties involved and formalised. Furthermore, SMGB is to ensure that decisions taken related to the Smart Card Scheme are endorsed in writing. All relevant documentation is to be retained by the Ministry for future reference and for other potential verifications to be carried out by third parties.

Variations to the Bill of Quantities

Without prejudice as to the effectiveness of the Smart Card Scheme, and given the considerable lapse of time since the drafting of the original Bill of Quantities and the variations noted, SMGB is to issue a new tender, tailored for the current needs. The applicable rates and items for which the Board is to be invoiced are to be clearly spelled out in the agreement endorsed by all contracting parties.

In the event that, due to changes in circumstances, the applicable rates have to be amended, written approvals are to be obtained prior to entering into a commitment with the service provider. These authorisations are to be filed for future reference.

Officers certifying invoices are to ensure that all documentation necessary to enable the proper verification of claims made by the service provider is in hand.

Lack of Ownership over the Smart Card System

Although the management of the Smart Card Scheme was outsourced, the ultimate responsibility still lies on SMGB, and any shortcomings by the Management Company will reflect negatively on the Ministry. Therefore, SMG Section is expected to be in possession of all documentation relating to the Scheme. Regular checks on the performance of the Management Company are also to be carried out.

Control Issues

Maintenance Grants

Overpaid Maintenance Grants

SMG Section is to request Colleges and the University to forward all information regarding students' resignations on a timely basis, so as to be able to withhold maintenance grants payments. A suitable template for recording all the necessary students' details may be drawn up and submitted to these Institutes, to be filled in for each resignation.

Misplaced Note leading to Overpayments not recouped

More attention is to be placed when filing instructions, especially for the cancellation of reimbursements.

Inconsistent Treatment in case of Reimbursements due from Students

Whilst all students are to be treated equally, justified decisions relating to the cancellation of reimbursements are to be formally documented.

Shortcomings in the Payment of Supplementary Maintenance Grants

All applications for supplementary maintenance grants, including the supporting documentation provided, are to be scrutinised to ensure the students' eligibility to these additional funds. No payments in this respect are to be effected unless the application is approved by SMGB.

Students receiving Maintenance Grants not traced to Records obtained from Colleges and vice-versa

SMGB is to analyse the above-mentioned cases and in the event that stipends were issued to persons not registered as students, it is to further investigate the matter.

Inspections performed at Retail Outlets

Number of Inspections performed on the decrease

SMGB is to ensure that inspectors carry out all the verifications at the outlets indicated in their monthly plan. If the retail outlet is closed or the Smart Card machine is malfunctioning on that particular day, the inspector is expected to re-visit the shop at a later date.

Non-compliance by Retailers

In order to prevent merchants from selling non-educational items to Smart Card users, besides sending, as far as possible, young mystery shoppers, of the same age as MCAST/University students, SMGB is to consider increasing penalties applicable in cases of proven non-conformity with the Scheme. While all reprimands issued by SMGB are to be done in writing and filed for future reference, participants found guilty of their second offence are to be excluded from the Scheme, irrespective of the materiality of the item sold.

Retail Outlets not subject to Inspections

A formal plan is to be drawn up identifying which retail outlets are to be visited each month by the inspectors. This should ensure that each participant in the Smart Card Scheme is visited at least once yearly. Cases of suspected abuse, brought to SMGB's attention by third parties, are also to be kept in view when selecting the inspections to be performed.

Inspectors' Engagement and Payment

Unofficial Appointment of Inspectors

Whilst all the necessary documentation is to be retained, the inspectors' engagement should be carried out in a more transparent manner.

Furthermore, officers over 25 years of age acting as inspectors are very likely to be discovered by the retailers as mystery shoppers. Therefore the Smart Card could be rejected merely on this premise.

Services provided by Inspectors not covered by Agreements

Services provided by inspectors are to be backed by signed agreements, which are to include the rate at which the inspectors are to be paid, as well as the period during which the service is required. All agreements are to be retained for future reference.

Inconsistent Payments effected to Inspectors

The rate payable to officers carrying out verifications at retail outlets is to be agreed upon by all parties prior to the inspector's engagement and included in the latter's agreements. No payments are to be effected in excess of the agreed rate.

Payment to Inspector not supported by Inspection Reports

Whilst payments are not expected to be approved without supporting documentation, SMGB is to recoup the respective amount covering the foregoing months.

Records held by the Students' Maintenance Grants Section

Possible Overpayment for Web Access

As reiterated earlier, invoices are to be backed up by adequate documentation supporting the amounts being invoiced and verified before approved for payment. Furthermore, SMGB is expected to recoup the overpaid amount.

Inconsistent Information on Retail Outlets participating in the Smart Card Scheme

Whilst SMGB is to maintain an updated record of all retail outlets participating in the Smart Card Scheme, inspection reports are to reflect the verifications actually carried out.

Information on Students not tallying with Records held by the respective Colleges

The official list of students currently maintained on a spreadsheet by SMG Section is to be kept up-to-date to facilitate any necessary verifications permitted by law. This list can also serve as a basis on which to calculate maintenance grants due to students.

Regular reconciliation between SMG Section's records and documentation held by the respective Colleges is also recommended.

Incomplete Information presented on Colleges' Attendance Lists

The attendance lists sent by Colleges are to clearly identify the College's name and the period covered. All students' names are to be listed, including those who resigned in prior periods. The attendance sheets are to further indicate the dates when the students were absent, their joining and resignation dates (where applicable), as well as any other information which is deemed necessary. This should ensure that SMG Section is kept timely informed of the status of all students attending Post-Secondary Colleges.

Management Comments

Management reiterated that it does not agree with NAO's observation that the Smart Card Scheme is ineffective and deems that, with some modification aimed at gaining more control and accountability, it should be retained. SMGB believes that the present system is adequately serving the scope for which it was introduced, and will therefore consider the issue of a new tender tailored to the current needs of the Smart Card System solely in the event that this is the only way forward.

In its reply to NAO's Management Letter, SMGB also stated that it accepted a number of recommendations, particularly those relating to the recording of inspections, details to be included in inspection reports, the retention of fiscal receipts when purchasing non-educational items and regular checks to be performed on the Management Company, and will take the necessary action to introduce them.

The remaining observations presented in the Management Letter were either contested by SMGB Chairman or were not adequately addressed, if at all. The Management reply also did not indicate whether the respective recommendations will be taken on board or otherwise.

Ministry for Social Policy

Medical Assistance – Free Medical Aid

Background

Free medication in Malta and Gozo outside hospitals is given to out-patients through Pink and Yellow Cards under Medical Assistance – Free Medical Aid (FMA), regulated by Article 23 of the Social Security Act (SSA), Cap. 318 of the Laws of Malta. The Directorate for Pharmaceutical Policy and Monitoring (DPPM), within the Strategy and Sustainability Division (SSD), Ministry for Health, the Elderly and Community Care (MHEC) determines which medicines are eligible to Pink and Yellow Card holders through the Government Out-Patients Formulary List (GFL)[1].

Applicants with limited capital[2] and income[3] are eligible for Pink Cards as determined by the Second Schedule, Part III (hereinafter referred to as Schedule II) and the Eighth Schedule, Parts I and II of SSA. Pink Cards are administered by the Department of Social Security (DSS). In order to determine eligibility for this service, means testing is performed on the applicant and all members of the household.

On the other hand, applicants suffering from any of the 18 chronic conditions listed under the Fifth Schedule, Part II (hereinafter referred to as Schedule V) of SSA are eligible for Yellow Cards, irrespective of their capital and income means. Yellow Cards are administered by Schedule V Office, under the responsibility of DPPM.

As an exception, there are a number of chronic conditions which qualify under Schedule II and a number of Pink Cards which are issued automatically without being means tested. There are also a number of other persons, referred to as 'Other Population Groups', which are entitled to free drugs.

During 2009, expenditure incurred by Government Health Procurement Services to outpatients through Mater Dei Hospital, Health Centres and Pharmacy of Your Choice (POYC) (for both Pink and Yellow Card holders, including prison and Detox) amounted to €27,248,406.

Audit Scope and Methodology

The objectives of the audit were to verify that the methods adopted in granting FMA to applicants through Pink and/or Yellow Cards, are in line with Schedules II and/or V of SSA and other relevant policies and procedures, and ensure that adequate monitoring and administration is carried out on all active beneficiaries receiving the medicine(s).

An overview of the procedures in place was obtained by means of meetings with officials from DSS and the Health Division (HD). A systems overview was prepared identifying risks and other areas of concern.

A database of 2009 Pink Card applicants was requested from each of the 24 District Offices (DOs) in order to

[1] The Government Out-Patients Formulary List outlines medicinal products that are available within the National Health Scheme and the Pharmacy of Your Choice Scheme. Medicinal products listed can be issued via a Schedule V (Yellow) Card once Schedule V entitlement is in place, or to Pink Card holders if the respective item is Pink Card positive.

[2] As per Second Schedule Part III, total capital must not exceed €9,320 where a household consists of one member only or is headed by a single person/parent; and €16,310 where a household consists of at least the head of household and his/her spouse.

[3] As per Eighth Schedule Parts I and II, weekly income must not exceed €27.37 where the head of household is neither in insurable employement nor self-occupied; and €123.76 where the head of household is in insurable employment or self-occupied. Where the number of members in the household exceeds one, the above weekly rates are increased by €8.15 weekly in respect of every other member in that household.

gather the total population during 2009. A sample of 37 PA205[4] Forms and 25 SLH145/GGH421[5] Forms, from amongst seven DOs, was selected. For each PA205 Form selected, means testing was recomputed.

Nineteen new and fifteen renewed applicants were selected for audit testing purposes. It is pertinent to note that the total population of Schedule V beneficiaries could not be obtained in view of limitations encountered.

Key Issues

Schedule II – Pink Cards

Limitation on Scope

Limitation on scope was encountered while testing 2009 Pink Card applicants, since DOs do not keep any records of those applicants whose means exceed limits established in SSA. Thus, the percentage of ineligible applicants over all applications and the total population of successful and unsuccessful Pink Card applicants during a particular year could not be quantified. Hence, no testing could be performed on the latter.

Other Population Groups Entitled to Free Drugs

In addition to the persons who are means tested and those suffering from tuberculosis, leprosy, poliomyelitis or diabetes mellitus, there are a number of 'Other Population Groups' also entitled to free drugs, mainly:

- members of certain religious orders (convents, friaries, monasteries and homes);
- all members of the Regular Force of the Armed Forces of Malta;
- all members within the Malta Police Force;
- prisoners;
- refuse collection employees;
- charitable institution residents;
- persons injured on duty;
- certain HD employees (as instructed by the Director General, Health, regarding work related diseases); and
- irregular immigrants.

Entitlement of free drugs to the 'Other Population Groups' is administered and controlled by the Groups' respective Departments rather than by DSS or DPPM. The cost of this service is not known as no database is maintained of the Groups' members entitled to free drugs, with the exception of members of certain religious orders and orphanage institutions, whose records started being maintained by Schedule V Office towards the end of 2009.

Patients with Chronic Illnesses under Schedule II

Patients suffering from chronic illnesses such as tuberculosis, leprosy, poliomyelitis or diabetes mellitus (administered by DSS) are automatically eligible for Pink Cards as specified in SSA Article 23(3), whereas patients suffering from any of the other 18 chronic illnesses (administered by DPPM) as listed in Schedule V of SSA are eligible for Yellow Cards. Whereby Yellow Card holders are entitled to free medicine only in respect to their chronic illness diagnosed, Pink Card holders diagnosed with any of the above four mentioned chronic illnesses can avail themselves of any medicine which is Pink Card positive.

Action by Management

DPPM has proposed a new reform to Cabinet for further consideration, whereby the chronic illnesses under Schedule V would be updated to include also the chronic illnesses currently falling under Pink Cards and thus regularise mis-entitlements. The reform was accepted and Schedule V was accordingly amended and published in the Government Gazette on 5 August 2011 through Bill 84 of 2011.

Inconsistent Record Keeping

All 24 DSS DOs were requested to individually provide the National Audit Office (NAO) with a database of all 2009 Pink Card applicants, in electronic format, within seven calendar days. Timely information was provided by 67% of DOs. Since the remaining DOs' records were kept on a manual register, information requested had to be electronically compiled following our audit request. DOs are not being consistent in procedures of record keeping. In addition, it is evident that DSS does not keep a database of all active beneficiaries of Pink Cards, which implies that the total beneficiaries receiving this service is unknown to Government.

Lack of audit trail was noted in the manner electronic records were kept, as information was only limited to details about new beneficiaries upon application. Discontinuation of services and any other changes are not recorded in the database. Also, new Cards issued upon renewals are included as new cases, thereby inflating the population of beneficiaries.

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[4] PA205 is the Form used by all persons applying for Pink Cards.

[5] SLH145 and GGH421 are the Forms used in Malta and Gozo respectively, to apply for Pink Cards for those applicants suffering from chronic conditions eligible under Schedule II during 2009.

Shortcomings of Means Testing Procedures

Pink Card applicants must declare all capital/assets held and income earned by the respective household. DO officers compile such information on the PA205 Form whereby applicants' eligibility for free medicine is determined through means testing. The following limitations were noted:

- There is no segregation of duties throughout the process of means testing as the process is carried out by DO clerks manually without being double checked, thus increasing the risk of human error. Managers' consultation and approval is only requested when means testing results minimally exceed the limits imposed by SSA.

- Once applicants start benefiting from FMA, the Social Assistance and Benefits System (SABS) is not updated accordingly. Furthermore, unless applicants are already in receipt of any pension or benefit from DSS, no details of cash at bank are found in SABS. In these cases, unless applicants present bank statements showing balances of cash held in banks, in addition to any other cash and assets owned, high dependency is placed on applicants' verbal declarations during the means testing process, even when information declared could be corroborated to other sources of information.

  If the bank details of a household were to positively change, making the household ineligible in view of exceeding capital means, such information would not be known upon renewal of the Pink Card.

  Verbal declarations with regards to any property held in addition to the house of residence and any additional motor vehicles owned are also taken as declared without being corroborated to any other sources of information, taking into account Data Protection Act provisions.

Beneficiaries of other Social Security Benefits Automatically Qualifying for Pink Cards

Non-contributory Benefits

Applicants in receipt of non-contributory benefits such as Social Assistance (SA), including Single Unmarried Parents (SUP) and Drug Addicts Assistance, Unemployment Assistance (UA) and Age Pension (AP) are considered as automatically eligible for Pink Cards on the basis that means testing would have already been carried out when applying for the afore-mentioned benefits respectively. NAO could not corroborate this to any legal provision within SSA supporting DSS' statement.

Notwithstanding this, it was noted that two out of the seven DOs tested did perform means testing on four applicants who were in receipt of any of the non-contributory benefits AP, SUP and UA.

Eligibility criteria and thresholds for means testing of these benefits may be different from the criteria and thresholds of FMA. The table below outlines a case in point:

Status	Capital Thresholds		Difference
	AP	FMA	
	€	€	€
Single	14,000	9,320	4,680
Married	23,300	16,310	6,990

There is the risk that, in view of the thresholds for AP being higher than those of FMA, applicants in receipt of an AP automatically qualify for Pink Cards even if capital means exceed FMA thresholds.

Contributory Benefit

One case was noted where the applicant who was in receipt of National Minimum Widows Pension automatically qualified for a Pink Card without being means tested.

Errors Noted while testing PA205 Forms

From testing of PA205 Forms, a number of shortcomings were noted:

- SSA Second Schedule, Part II, Article 4(a) states that the first €95 arising out of the use of property should not be taken into account in calculating the income received by the applicant or any member of his household. In two cases, a slightly different amount was deducted from income.

- A case was noted where an applicant's capital marginally exceeded the threshold imposed by SSA and was approved to be eligible. Two other cases were noted where additional bank balances to the ones declared on the PA205 Form were noted on SABS, with the result that as at application date, capital thresholds imposed by SSA were exceeded, implying that applicants were not eligible.

- DOs use different sources of bank interest rates (such as bank statements, fixed pre-determined percentages and commercial banks' websites) for computation of interest income received.

- In four instances, the types of pensions and assistances received, listed on the applicant's PA205 Form, did not match with the types of pensions and assistances listed on SABS as at application date. In another instance, the rate of assistance was different from the rate as shown on SABS as at application date.

- In two cases, incorrect personal details of applicants were noted when corroborated to SABS and the Common Database (CDB).

- A number of cases tested could not be concluded in view of insufficient details recorded on PA205 Form, lack of supporting documentation as corroborative evidence or data not updated on SABS, in particular bank balances uploads.

- A number of erroneous calculations were noted on the Application Forms, mostly due to human error or oversight.

- Instances were noted where calculations by DO officers were worked out mentally, with only the end result being shown on the Application Form rather than showing sufficient details of the means testing performed.

Schedule V – Yellow Cards

Mis-entitlements of Yellow Cards

During meetings held with HD top management, it was stated that over the years Yellow Cards started being issued also for illnesses in addition to the 18 diseases and conditions listed in Schedule V. Amongst other reasons, this was also due to the fact that medicine evolved, however the law was not updated in this regard.

Action by Management

DPPM has proposed a new reform to Cabinet for further consideration, to update the 18 diseases and conditions under Schedule V and thus regularise potential mis-entitlements. The reform was accepted and Schedule V was accordingly amended and published in the Government Gazette on 5 August 2011 through Bill 84 of 2011.

Applications Not Entitled and Sent Back

During 2009, a total of 30,603[6] applications for new Cards or renewals of existing Cards were received by Schedule V Office, of which 61 were deemed to be not entitled to Schedule V.

Out of the total applications received, 1,086 were sent back to applicants in order to give the latter the possibility to explain unclear matters or to provide any missing information. Of these applications, 35% were sent back as the condition diagnosed by the consultant was deemed to be 'not on Schedule V list'. It is not clear why these applications were immediately not considered as not entitled in the first place.

Dispensing Free Drugs Prior to Approval

While the approval for Yellow Cards is still being processed by Schedule V Office, applicants have the facility to be dispensed free medicine by presenting a copy of the Application Form together with the prescription at the Dispensing Unit. When this occurs, the free medicine dispensed is marked on the copy of the Application Form with a sticker label. This fact was noted on seven out of 34 applications tested. This poses the risk that if an Application Form is not approved, the applicant would still have been dispensed a limited amount of free medicine.

Protocol Regulated Drugs

Certain medicinal products are Protocol regulated and are supplied only against the relevant approval, issued and administered by the Medicines Approval Section (MAS), in addition to the Schedule V Card. Furthermore,

- five instances were noted where Protocol regulated medicines were dispensed to patients without a valid permit in place;

- in three other cases, Protocol regulated medicine was prescribed by a consultant who did not meet the prescriber criteria[7] as required in the Protocol; and

- two cases could not be concluded as sufficient information was not available.

[6] The total of 30,603 is made up of 30,542 approved and 61 not approved applications. Part of the 1,086 applications received and sent back (of which a number were returned properly filled and processed) form part of the 30,603 applications. A part of the 1,086 applications were never returned.
[7] The prescriber criteria details the medical practitioners who are allowed to prescribe particular medicinal products for patients holding a Schedule V Card or a Schedule II Card. All such specialists should be appointed consultants.

Limitations of Schedule V Office and Errors noted during Testing

Criteria set out in GFL are not being enforced. The following were noted:

- As stated in GFL dated August 2010, when dispensing a formulary item an individual should present, amongst other things, the *"Patient's ID card and ID card of person who comes to collect the medicines on the patient's behalf"*. NAO was informed that upon collection of free medicine, patients or persons acting on their behalf are not presenting ID cards.

- Even though GFL specifies prescriber criteria for medicinal products prescribed, Schedule V Office was noted to have accepted any consultants, with the exception of Ophthalmology and Psychiatry specialists.

Habitual practices and experiences followed by Schedule V Office are not backed up by law or approved Office guidelines, as noted below:

- Application Forms with insufficient information such as date of application, re-examination date and validity period were noted.

- Four instances were noted where conditions not on Schedule V list were diagnosed on Application Forms and approved since conditions related to other Schedule V conditions.

- Two cases were noted where supplementary medicine falling under particular disease categories was prescribed to patients in order to alleviate any undesirable effects of other prescribed medicine. In one of the two cases, Schedule V Office also included in the Schedule V System the condition of the supplementary medicine prescribed, even though such condition was not specified on the Application Form.

- A patient was prescribed a particular medicine for disease categories which the patient was not diagnosed with.

- Schedule V Office does not have a comprehensive list of all appointed consultants. The latter are known and recognised through the Office's experienced staff. This increases the risk of Application Forms endorsed by unauthorised consultants being erroneously approved. In four cases tested, consultants were not listed in the lists provided.

- The majority of the Application Forms received at Schedule V Office are vetted by clerical staff, thus increasing the risk of ineligible diagnoses or medicine being mistakenly approved as eligible. For most part of 2009, a medical practitioner helped Schedule V Office, on a weekly basis, in the vetting of doubtful applications.

Action by Management

Towards the end of 2009, a Principal Pharmacist joined DPPM and started assisting Schedule V Office in the vetting of complicated applications on a daily basis.

Limitations of the Schedule V System

The Schedule V System dates back to 1976 and is not linked to other databases such as GFL, POYC, MAS and the Dispensing Units. There is the risk that the current System is not adequate to cater for the processing and administration of the Schedule V scheme and all the changes which occurred in past years.

Amongst other drawbacks of the Schedule V System, the latter also lacks adequate reporting facilities. In view of the System's drawbacks, the following shortcomings were encountered in the reports generated:

- The facility to generate reports by patients' ID cards as unique criteria was not available so reports were generated by diagnosis.

- The total population of Schedule V beneficiaries was not extracted from the System since this required a lengthy extraction process. Information was gathered from Application Forms.

- The reports generated did not disclose essential details such as the names of consultants, the expiry date of Yellow Cards, the dates of application and the unique application red number.

- The report generated all diagnoses and prescribed medicines for each Application Form issued to each patient. Since no referencing was available on the report, the various diagnoses and medicines listed could not be identified to the particular Application Forms being tested. Following verification on the Schedule V System of eight Application Forms, it resulted that the report listed details from other Application Forms and additions to the original application in six and two cases respectively.

- In addition, four diagnoses and one prescribed medicine respectively were listed on the Application Forms tested but were not listed on the generated report, even though the diagnoses and medicine were actually inputted in the Schedule V System.

Action by Management

Management has proposed to introduce an adequate Information Technology (IT) System structured in a way that makes it more user-friendly to process applications and issue Schedule V Cards (through mapping of conditions to drugs and other facilities which are currently lacking), linked to dispensing modules and allowing better reporting.

Control Issues

Schedule II – Pink Cards

Lack of Control over Applications of Diabetic Patients in Gozo

Up till 1 July 2010, Gozitan diabetic patients applied for Pink Cards on Form GGH421 and, contrary to the procedure in force in Malta, any consultant could sign the Form. All GGH421 Forms tested for Gozitan patients were endorsed by unauthorised consultants. There is the risk that these applicants would have been automatically issued Pink Cards with the facility of availing themselves of all Pink Card positive medicines.

Action by Management

On 1 July 2010, i.e. prior to the commencement of the audit, a meeting with the Director for Pharmaceutical Policy and Monitoring was held with officers from the Gozo DO, when it was decided that only three specific consultants can endorse the Form, in addition to a rubber stamp of the consultant and of the Diabetic Clinic in Gozo General Hospital.

Errors Noted while Testing SLH145 Forms

The absence of uniform policies was noted amongst DOs. Four out of six Malta DOs tested compiled the PA205 Form and retained a copy of SLH145 Form for each diabetic patient applicant. The Qawra DO was noted not to retain a copy of the SLH145 Form attached to the PA205 Form, thus limiting our audit testing as the diagnosis and the consultants endorsing the SLH145 Form could not be checked. On the other hand, the Msida DO was noted at times to only retain an SLH145 Form with no PA205 Form being compiled for the applicant.

Seventeen SLH145 Forms were tested and inadequate controls over endorsement of four Forms by consultants were noted.

Validity Period of Pink Cards

The majority of Pink Cards for means tested applicants under 60 years of age are issued for a validity period of four months, whereas Pink Cards for means tested applicants over 60 years of age and applicants diagnosed with any of the four chronic conditions eligible under Schedule II, are issued for a validity period of 12 months. Out of the 37 PA205 Forms tested, the following was noted:

- In four cases, the validity period was not recorded on the PA205 Form.
- The Victoria DO did not follow the general procedure of a four month validity period to beneficiaries under 60, but instead granted a validity period of 12 months in one case and three months in four other cases.
- The Msida DO granted a validity period of 12 months to one beneficiary under 60 years of age.
- Upon scrutinisation of the databases provided by each DO, it was noted that beneficiaries under 60 years of age were granted validity periods between three to six months.

Schedule V – Yellow Cards

Insufficient Controls over Yellow Cards of Deceased Beneficiaries

When dispensing free medicine to Yellow Card patients, ID cards are not requested. Thus, any relative or other person on behalf of patients can be dispensed free medicine just by presenting an active Yellow Card.

Upon the demise of patients, the only way Schedule V Office learns that a patient passed away is through relatives of the deceased returning the Yellow Cards at the Office for cancellation.

There is the risk that relatives of deceased patients can take advantage of the service and go on with the collection of free medicine, even if not needed or maybe to hand over to other persons, in exchange of a financial compensation or otherwise, until the Yellow Card expires.

Weaknesses by Consultants

The following weaknesses have been noted on Application Forms:

- Instances were noted when consultants list patients' diseases or conditions which are not listed in Schedule V as per SSA, thereby increasing the risk of having patients trying to take advantage of the service by putting forth unfair demands on the consultants whilst compiling Application Forms.

- Applications were noted when the consultants signature could not be verified.

- Cases were observed when the dosage of the medicine was not prescribed on the Application Form. This created difficulties during our audit especially when the medicine was found in GFL in various dosages, some of which regulated by Protocol. The lack of dosage information may also create difficulties during the vetting process or upon dispensing of the medicine.

- Consultants have been noted to prescribe the medicine by brand name rather than by active ingredient as found in GFL. Patients might be confused if dispensed the correct active ingredient but under a different brand name than the one prescribed and dispensed in the past.

- In two cases, consultants prescribed medicine not in relation to conditions listed on the applications. It resulted that these medicines were originally prescribed by previous consultants and just copied by the current consultants on the new applications without noting down also the related medical conditions.

Action by Management

A new Application Form has been designed and already put into use since June 2010. According to top Management, the old Application Form available in Government entities is still being used and accepted. The new Application Form lists all diseases and conditions currently eligible under Schedule V list, so that consultants need only circle the diagnosis of the patient rather than listing them, thus avoiding the risk of listing a diagnosis which is not on Schedule V list.

On 7 October 2010, DH Circular No. 223/2010 – 'Re: Schedule V applications and Cards' was issued by SSD whereby it was stated that the Schedule V Card should only include the medical substance and the formulation for entitlement purpose. The dose and the dosage regime should no longer be included. Also, prescribers should refrain from using brand names but only include the name of the medical substance and the formulation on the application.

Pharmacy of Your Choice Scheme

POYC Scheme enables Yellow Card beneficiaries to pick up their free medicine from their chosen pharmacy. Upon the introduction of POYC in various localities towards the end of 2007, it was noted that a significant number of Yellow Card holders had handwritten diagnoses and medicine prescriptions on their Yellow Cards. This implied that patients were being dispensed free medicine by presenting the handwritten amended Yellow Cards, rather than the Cards being re-sent to Schedule V Office for vetting and re-issuing through the Schedule V System.

Action by Management

Upon the introduction of POYC, patients needed to regularise their Cards prior to start benefiting from POYC service. Instructions were given to all Dispensing Units, other than POYC, not to dispense any free medicine when Cards were presented handwritten. Cards which were handwritten started to be collected and re-issued. However, up to the writing of this Report, handwritten Cards were still being received at Schedule V Office.

Compliance Issues

Schedule II – Pink Cards

Scale Rates of Means used not in accordance to the Social Security Act

During the year under review, SSA Eighth Schedule stated that the *"Scale rates of means governing Free Medical Aid where the head of household is in insurable employment or self-occupied"* amounted to €123.76 for one person. As per Memo No. 1/2009 issued by DSS on 2 January 2009, the scale rates for FMA for one person amounted to €127.84. In one case tested, upon re-computation, the applicant resulted as not eligible as total income exceeded the weekly scale rate as per SSA.

Schedule V – Yellow Cards

Inaccuracies within the Government Out-Patients Formulary List

In three cases tested, medicine prescribed was under different disease categories in GFL and Protocol respectively. Such discrepancies may arise in view of the fact that although GFL was compiled by DPPM, this was originally based on American procedures.

Eight cases were noted where medicine was approved to patients with particular conditions, irrespective of the condition under which the medicine was listed in GFL.

There is the risk that the criteria set out in GFL are not followed in view of other practices or GFL itself not being updated.

Recommendations

Key Issues

Schedule II – Pink Cards

Limitation on Scope

DOs are recommended to compile and retain all Application Forms with details of capital and income, for both eligible and ineligible applicants.

Other Population Groups Entitled to Free Drugs

The responsibility for the administration and control of these Groups should be clearly defined between DSS and DPPM.

An exercise should be carried out whereby each Group should provide details of all Groups' officers entitled to Pink Cards and any other terms and conditions relating thereto.

Inconsistent Record Keeping

All DOs are to follow the same procedures and record all new applications electronically. For all prior years' records which were kept manually, these could be electronically recorded upon renewals when beneficiaries present themselves at their DO upon expiry of their Pink Cards.

An interlinked System for all DOs should be created in order to record all beneficiaries currently benefiting from Pink Cards service in one database. Records should be maintained in a way to provide sufficient audit trail of the history of changes of each applicant, as well as record details such as dates or renewal, thus enabling instantaneous reporting.

To derive further benefits from the System, medicine dispensary points should ideally be linked to the System so that all free medicine dispensed to each Pink Card beneficiary would be recorded. This would make known the cost of such a service during a particular period.

Shortcomings of Means Testing Procedures

It is of utmost importance that means testing procedures performed are counter-checked by a second officer, thus enforcing internal controls.

DSS is being recommended to always request and retain as evidence, physical copies of bank statements as at date of application, especially if such details are not uploaded on SABS. In addition, once applicants become eligible and start receiving the service, details of the benefit should be recorded on SABS as well as details of cash held at bank. Such measures would reduce the risk of ineligibility through false declarations.

DO officers should have the facility to check details of other assets held against independent sources of information so as to corroborate applicants' declarations.

The new IT System should also provide for a means testing module enabling means tests to be performed through an automated System rather than manually. The System should be designed so as to include pre-determined details and thresholds as per SSA, reducing even further risks related to human error.

DSS should request commercial banks to identify any abnormal transfers and investments made to/by beneficiaries receiving Social Security benefits.

Beneficiaries of other Social Security Benefits Automatically Qualifying for Pink Cards

DSS should ensure that practices adopted regarding means testing are clearly stated in SSA. All DOs should apply standardised procedures.

Errors Noted while testing PA205 Forms

DOs should invariably comply with the requirements set out in SSA and should ensure uniformity throughout all DOs.

DOs should place more reliance on supporting documentation and information to back up applicants' verbal declarations. DSS should also ensure that SABS details are updated and correct.

Means testing workings should be adequately evidenced on the Application Forms.

Schedule V – Yellow Cards

Applications Not Entitled and Sent Back

Application Forms should be thoroughly evaluated and vetted by officers with technical expertise so as to immediately ascertain eligibility of applicants when Application Forms are unclear. If diagnoses are 'not on Schedule V list', Application Forms should be deemed to be not eligible.

The sent back note issued from the Schedule V Medicine Entitlement Unit should be amended to read 'Diagnosis is not on Schedule V list thus NOT ENTITLED'.

Dispensing Free Drugs Prior to Approval

Free medicine prior to final approval should only be dispensed to those applicants who prove to Schedule V Office that they urgently require the medicine and do not have sufficient means to purchase it, or cannot procure it from sources other than the Government.

Protocol Regulated Drugs

It is being recommended that MAS and Schedule V Office work in combination so that the permits for Protocol regulated medicine are issued together with the Schedule V Cards so as to avoid permits from each section expiring on different dates. This would reduce the risk of patients being dispensed medicine without a valid permit.

Limitations of Schedule V Office and Errors noted during Testing

Schedule V Office should follow the criteria set out in GFL. If such criteria is not considered practical, GFL should be officially amended and updated so as to take into consideration the practice adopted by Schedule V Office. All procedures followed by Schedule V Office should be documented in official guidelines.

A comprehensive list of appointed consultants from all Hospitals and Health Centres should be obtained and regularly updated by Schedule V Office.

Control Issues

Schedule II – Pink Cards

Errors Noted while Testing SLH145 Forms

The same procedures should be followed throughout all DOs in Malta and Gozo, with regards to the retention of applicants' Forms.

Controls over endorsement of Forms by consultants should be strengthened.

Validity Period of Pink Cards

The same procedures should be followed throughout all DOs so that beneficiaries from all areas are treated in a consistent manner.

Schedule V – Yellow Cards

Insufficient Controls over Yellow Cards of Deceased Beneficiaries

ID cards of the patient and of the other person collecting free medicine on the patient's behalf should always be requested and presented with the Yellow Card, as per criteria set out in GFL dated August 2010.

In addition, Schedule V Office should obtain an electronic list of ID cards of deceased persons, so that these persons can be matched to patients in the Schedule V System and marked as deceased. This would prevent any exploitation, at Government's expense, of deceased patients' Yellow Cards until expiry.

Weaknesses by Consultants

Schedule V Office should enforce more controls over the appropriate compilation of Application Forms, and ensure that old Application Forms still available in Government entities are no longer accepted. This would automatically enforce usage of the new Application Forms.

Compliance Issues

Schedule II – Pink Cards

Scale Rates of Means used not in accordance to the Social Security Act

Changes to legislation should immediately be effected through legal notices and subsequently updated in SSA so that procedures in use by DSS are legally backed up.

Schedule V – Yellow Cards

Inaccuracies within the Government Out-Patients Formulary List

GFL should be amended and updated in order to be in compliance with common practice followed by Schedule V Office and with other sources of documentation.

Management Comments

Management concurred with most of the recommendations put forward by NAO and will continue to follow up the recommended actions. The following comments were also submitted:

DSS stated that action with regards to 'Other Population Groups' will be taken to find a way forward so that the responsibility will be taken over by MHEC since the remit of DSS is only to carry out financial investigations. In this regard, the Director General Strategy and Sustainability (DGSS) stated that discussions were held with DSS, however the situation has still not been resolved. Pink Cards are being issued (not by DSS) to these other Groups as an administrative practice in the absence of a legal framework. NAO was further informed that the issue of Pink Cards for religious orders and charitable institutions originated over the years on humanitarian basis and this is still practiced on the grounds that it is backed up by documents within a file from the Ministry of Finance, the Economy and Investment, dating back to the 1950s.

Once the new reform proposed to Cabinet to include under Schedule V the chronic illnesses currently under Pink Cards will be accepted, *"DSS will implement this measure when instructed to do so by MHEC"*.

DSS stated that a high level document on the automation of the Pink Form was already compiled by the Malta Information Technology Agency (MITA). It was further stated that this is one of the priority areas identified with MITA and every effort is being made to automate the process for the Pink Form by the end of the current year. Ideally it would be a System where the actual physical Cards are eliminated and dispensaries are informed electronically. *"... at this point talks will be held with MHEC to explore the way forward on the automation of the issue of the Free Medical Aids ..."*. DPPM stated that an IT project brief has been compiled and the System will interlink the process of both Yellow and Pink Cards. Amongst others, requirements include the interlinking System between the entitlement System and the dispensary as well as combining the Schedule V Office with the other systems used in relation to Schedule V Cards.

DSS noted that, in view of lack of staff, it is difficult to implement segregation of duties in all DOs. *"It would seem to make more sense to centralise the process of authorisation. This will be explored further in the automation process"*.

With regards to declarations by applicants when these call at DOs, DSS stated that it is impossible to confirm or otherwise the declarations and documentation presented from other sources, especially since most of the times, the issue of Pink Cards is instantly/urgently required upon applicants' request. *"As a first step only fresh statements from banks should be accepted"*.

In previous years, the thresholds of both Pink Cards and other non-contributory benefits were the same. Nowadays, the thresholds are different but Pink Cards are still being automatically issued in view of the past practice. This practice is not legally backed up by SSA, *"but it has always been assumed that Social Assistance beneficiaries would need Free Medical Aids"*.

DSS stated that the scale rates of means used were not in accordance to SSA as the rates were issued erroneously to staff through a memo. However, the rates were correctly published in the Government Gazette.

Since the audit, DPPM has drafted a rejection form to be sent by Schedule V Office directly to the patient, to be informed that the consultant's request cannot be approved together with the reason for rejection. Consultants are only being sent back Forms to provide missing information where required.

DGSS stated that should NAO's recommendation in respect of the dispensing of free drugs prior to approval be only available to applicants who prove that they urgently require free medicine, this will adversely affect other patients. If approved by higher authorities, a new procedure may be instituted so as to effectively implement recommendations set out. In addition, once the automated IT System comes into force, this should eventually help in solving this problem.

Although DPPM agreed that ID cards should be presented to collect a Schedule V Card, this is not within DPPM remit and such an issue should be addressed directly to Primary Care and to POYC. Even though DPPM cannot enforce such a matter themselves, it was proposed that DPPM would be issuing a Circular in order to assist and enforce such a Policy.

Direction was given to Schedule V Office clerks not to add in the System any conditions not specified on the Application Forms.

The list of consultants is continuously changing and its updating is a time consuming manual process. DGSS stated that concern would be higher if retired consultants are still signing applications, rather than new consultants not yet included in the list.

According to Management, recommendation by NAO that Schedule V Office should obtain an electronic list of ID cards of deceased persons is currently not feasible.

"As per IT project brief Linkage between medicines entitlement database and CDB have been proposed to automatically detect dead patients".

Following NAO's audit, on 11 April 2011 DH Circular No. 91/2011 – 'Re: Medicines Entitlement Unit application forms' was issued by SSD, in which it was stated that *"It has been brought to our attention that the older versions of the application forms for Schedule V entitlement, Protocol Regulated requests and Exceptional Medical Treatment Policy requests are still being used. Old forms that are currently still available in hospital wards and clinics are to be recalled and print-outs of these new forms (attached) are to be made available for use"*.

DPPM informed NAO that GFL is updated every six months. As much as possible, DPPM works through proper channels such as GFL and the Protocol. However, for exceptional cases, other channels were created in order to specifically respond for these client needs.

Co-operatives Board Financial Years 2009 and 2010

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

The aim of the audits was to ascertain that:

- the Statement of Financial Performance, Statement of Changes in Net Assets/Equity, Statement of Financial Position and the Cash Flow Statement, 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 2009 and 2010, 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.

Control Issues

Expenses Paid from the Co-operatives Board's Funds

Fuel and Other Vehicle Expenses

Up to 2009, the Board's office vehicle was mainly used by the then Manager, for both office as well as personal use. Although the National Audit Office (NAO) is not in a position to arrive at the portion of the additional expenses incurred, annual payments during 2009 related to fuel bills, vehicle maintenance and cleaning/parking bills amounted to €910, €1,125 and €64 respectively. This practice was neither approved by the Board in any Minute nor by any formal agreement, indicating lack of controls in this sector.

Controlled Vehicular Access Bills

Payments amounting to €514 and €743, in respect of years 2009 and 2010 respectively, were issued in favour of the Controlled Vehicular Access (CVA) Technology Co. Ltd. for access and parking in Valletta. From these amounts, €500 and €725 related to invoices pertaining to the vehicle used by the then Manager. There appears to be no written official policy with regards to CVA payments, and refunds are being given without proper authorisation.

Board Meetings and Working Lunch

Following the Chairperson's 'policy' decision, on four separate occasions, the Board meetings which are usually held at the Board's premises, were instead held at a five star Hotel. Additional costs incurred include hire of venue, beverages and coffee breaks amounting to €307.

On another occasion, a meeting was held as a working lunch at a restaurant, amounting to €210. Whilst it is acceptable that certain events which are work-related are organised at similar venues, it is debatable whether they should be done on a frequent basis, risking the exception becoming the norm.

Accompanying Person

The Board requested a foreign Professor to visit Malta in order to assist in the updating of legislation related to Co-operatives. NAO was informed that the Professor *"…… agreed to visit Malta only if he was accompanied by his wife"* which approval was not mentioned in the letter sent by the Parliamentary Secretary indicating the need for expert assistance. NAO is not in a position to arrive at the additional expenses incurred in respect of the spouse, including airline ticket, accommodation costs and lunches.

Action by Management

With effect from January 2010, a new employment contract specifically providing for the use of the Board's vehicle was signed between the Co-operatives Board and the former Manager. For similar cases in the future, agreements should be approved before incurring any expenses.

Incorrect Treatment of Refunds

Refunds amounting to €1,320 and €322 respectively were incorrectly accounted for as income. These refunds are not income generated in the normal operations but merely a reimbursement of expenses incurred by the Board on behalf of third parties.

Inaccuracies and Incompleteness in the Financial Statements

Scoops Project Fund

No action was taken regarding the bank balance in relation to the Scoops Project Fund, held in a Current Account in the name of the Co-operatives Board, even though the matter was already mentioned in previous years' NAO Management Letters. The available balance as at 26 November 2010 read €1,716.21. As commented by Management following previous NAO's Management Letter, the Account should not be disclosed in the Financial Statements as *"In actual fact these funds belonged to the Kunsill Nazzjonali Scoops."*

Other Balances

The comparative figure disclosed for 'Transport and Travel' expenses in the Statement of Financial Performance for 2010 was overstated by approximately €99. Nevertheless, the correct total operating expenses amount was disclosed in the same Statement.

Tangible Fixed Assets

Incomplete List of Fixed Assets Acquired

Two computer-related items costing €164 were originally expensed but eventually capitalised as 'Computer and Office Equipment'. Following reclassification, these items were not included in the list of fixed asset additions for the year which was provided by the auditee.

Inaccuracies in the Financial Statements

Computation errors were noted in some of the figures relating to Fixed Assets for both years under review. Also, the opening Net Book Value for 2009 was erroneously recorded as €13,702 in the Note to the Financial Statements instead of €13,877 as in the Statement of Financial Position.

Fixed Assets Register

A Fixed Assets Register is still not being maintained by the Board even though this matter was already pointed out in previous years' NAO Management Letters. This register is an important mechanism in order to safeguard the assets and ensures the accuracy of the cost, depreciation charge and the calculation of profit and loss arising on disposals.

Other inaccuracies relating to Tangible Fixed Assets include inconsistencies and wrong classification of accounts, thereby increasing the risks of:

- using depreciation rates which do not reflect the lifetime of the fixed asset in question; and
- having incomplete and inconsistent financial data.

Incorrect Amounts Accrued

Accruals pertaining to electricity bills for 2009 were over accrued by €397, whilst telephone accrual amounting to €35 was erroneously omitted from the list of accruals for 2010.

Petty Cash

Amounts recorded on two Payment Vouchers did not tally with the invoices, having the closing balance as per accounts not tallying with the actual balance of the petty cash in hand.

Verification of Refunds Claimed and Invoices Paid

Refund of Tickets

As stipulated in the Public Service Management Code (PSMC), Chapter 8, paragraph 8.2.2.1, expenses incurred in order to attend Board meetings may be charged from public funds. No verifications were made regarding the correctness of Gozo ferry tickets presented for refunds. The following issues were noted with respect to refunds:

- No Board meeting was held on the date specified on the ticket presented for refund.
- On two instances, the tickets that were presented for refund were expired.
- A Gozitan Board member did not attend the meeting but a ticket was claimed for refund.

Invoices paid

Invoices for cleaning services do not specify the number of hours of service provided and the hourly rate being charged. Invoices feature only the days on which the service was provided and the total bill due. Accuracy of the bills is therefore hindered and payment claimed cannot be corroborated.

Bank Interests and Withholding Tax

A difference of €105.92 between the creditors' balances in the Central Co-operative Liquidation Fund (short and long term) and the bank balance in the related Liquidation Current Account, is due to accumulated interests and related withholding tax on the amounts deposited upon Co-operatives' liquidations. It is unclear whether this balance pertains to the Board or to the Central Co-operatives Fund (CCoF), since the interests/withholding tax were earned/ charged on monies due to CCoF. Although the Board was of the opinion that *"... all tax should be bourn by CCF and all interests should be handed to CCF"*, these amounts are still not being transferred to CCoF.

The Commercial Bank confirmed that no interest is being granted on current accounts as from 2009. As a result, funds are being deposited in an account where no interest can be earned.

Misclassifications and Inconsistencies

Some expenses were either misclassified or postings were treated inconsistently thus affecting the presentation and disclosure in the Financial Statements.

Compliance Issues

Analysis of the Inventory Databases

From analysis of the 2009 and 2010 Inventory Databases forwarded to NAO for examination, the following shortcomings were noted indicating non-compliance with MF Circular No. 14/99:

Minimum Information

Details of 'Location of Asset', 'Department Description', 'Section Description' and 'Asset Type' were not recorded although required by the above-mentioned Circular. Details of 'Class of Asset', 'Supplier', 'Address' and 'Asg. to Loc.' are being recorded although not required by the Circular. The latter heading was removed from the 2010 Inventory Database.

Wrong Classification Number

Although only the required codes were used for the 'Asset Classification' number, various assets could not be properly identified as a wrong code was assigned to them.

Blank/Irrelevant Information

A number of fields in the 2009 Inventory Database were either left blank or included details not as per Inventory Circular requirements.

Consumables Included in the Inventory Databases

A number of consumables, with a value of less than €116.47 were noted within the Inventory Databases. In addition:

- two printers acquired during 2009, costing €383.50 each, were not recorded in the 2009 Inventory Database. Also during 2010, Closed Circuit Television (CCTV) equipment and a door opening alarm were recorded in the Inventory Database with a classification number which did not match the asset category as per Financial Statements. In addition, the cost of CCTV equipment recorded in the Inventory Database is incorrect since it excludes the deposit of €520; and

- the Inventory Databases included some obsolete/ replaced inventory items which the Board may no longer be benefiting from.

Local Allowances

As per PSMC, Chapter 8, paragraph 8.4.1.2, officers required to travel to Gozo for a single day visit are entitled to breakfast and lunch at the rates of €3.49 and €8.15 respectively. On two separate occasions, two officers travelling together, exceeded this limit by €36 and €26 respectively.

Payment of Mobile Phone Bills

Lack of Itemised Bills

In six out of seven transactions tested, itemised bills were not available as required by PSMC, Chapter 2, paragraph 2.6.1.3(b). Although upon enquiry it was stated that international calls and usage whilst abroad were made pertinent to office duties, there is no supporting evidence substantiating this claim.

Central Co-operatives Fund

During years 2000 and 2002, two deposits of €782.88 and €472.86 for each year respectively, were transferred to the Board upon the liquidation of two Co-operative Societies. Upon the expiry of five years from 2000 and 2002 respectively, the Board did not transfer the funds to CCoF as stipulated by the Act. This decision was made by the Board in view of other matters of disagreement with CCoF. Of the two above-mentioned deposits, an amount of €890.03 was transferred to CCoF during 2010, leaving the balance of €365.71 to be transferred during 2011.

Recommendations

Control Issues

Expenses Paid from the Co-operatives Board's Funds

The Board should seek advice from the Ministry of Finance, the Economy and Investment regarding CVA payments and ensure that similar future instances are covered by valid rules.

Similar expenses in the future ought to be minimised unless there is a valid reason for meetings not to be held at the Board's premises.

For similar hospitality expenditure in the future, discussions should be made *a priori* and an approval sought from the appropriate authority.

Incorrect Treatment of Refunds

A clear distinction is to be made between income generated by the Co-operatives Board as part of the normal operations and refunds received in respect of expenses already incurred.

Inaccuracies and Incompleteness in the Financial Statements

NAO reiterates that if the Board sustains its position not to disclose the funds, an official document should be obtained from the responsible organisation, confirming that such funds do not belong to the Board and thus authorising the Board to disassociate itself from the funds and their responsibility. All balances in the Financial Statements must be correctly disclosed.

Tangible Fixed Assets

NAO reiterates that a proper Fixed Assets Register is compiled in order to exert better control over the custody of the assets and contribute towards the accuracy of the cost and deprecation. Upon initial recognition of a fixed asset, reference should be made to relevant standards and regulations. Consistent treatment should be adopted upon accounting for the purchase of fixed assets.

Due to relatively immaterial values, audit adjustments were not proposed, however guidance is to be sought from Treasury regarding assets' classification. Consumables must be expensed in the year of purchase and a separate list should be compiled for record and control purposes.

The Board should ensure that the list of fixed assets acquired is updated accordingly.

The Financial Statements should be reviewed thoroughly to ensure that figures are disclosed correctly.

Incorrect Amounts Accrued

The Board is urged to update the books of account and the Financial Statements for 2009 and 2010 respectively with the proposed audit adjustments to ensure accuracy and completeness.

Petty Cash

Irrespective of the materiality of the amounts, the Board should ensure appropriate controls over petty cash transactions. Monthly reconciliations and cash counts should be performed to verify that physical cash on hand tallies to the balance as per accounting records.

Verification of Refunds Claimed and Invoices Paid

Adequate backing documentation is to be requested and controls, over verification of refunds claimed and invoices paid, ought to be strengthened.

Bank Interests and Withholding Tax

The Board should reach a formal agreement with CCoF regarding interests received and tax charged on deposits of Co-operatives' liquidations. If these amounts belong to the Board, the balance should be transferred to another bank account in order to avoid discrepancies. However, if these amounts belong to CCoF a transfer should be made accordingly. Also funds are to be transferred to savings accounts since interest is only being earned on these accounts.

Misclassifications and Inconsistencies

Irrespective of the materiality of the amounts, the Board should strive to be consistent when posting transactions in the Nominal Accounts, even from one year to another.

Compliance Issues

Analysis of the Inventory Databases

Officers in charge of the Inventory Database should ensure that the requirements and guidelines of the Inventory Circular No. 14/99 are strictly adhered to. Also the Board should remove from the Inventory Databases, items which are less than €116.47 and any obsolete/replaced items. However, a separate list thereof should be compiled for record and control purposes.

Local Allowances

The Board should ensure that the rates stipulated in PSMC are strictly adhered to and any expenditure in excess should be refunded by the officers.

Payment of Mobile Phone Bills

As per MF Circular No. 2/06, only itemised bills are to be submitted by the service providers and officers may prepare a log certifying the calls that were made pertinent to their duties. These documents should be scrutinised and attached with the relevant Payment Vouchers.

Central Co-operatives Fund

The Board should be strictly in accordance with the Co-operative Societies Act irrespective of any disagreements with CCoF.

Management Comments

Management concurred with most of the recommendations put forward by NAO. An exit meeting was held in order to discuss issues not addressed or not agreed upon by Management.

- Following NAO's observations in respect of 'Controlled Vehicular Access Bills', 'Board Meetings and Working Lunch', 'Accompanying Person' and 'Local Allowances', Management commented that the approval of the Chairperson was sufficient. However, Management agreed that, for similar future instances, the sole approval of the Chairperson would not suffice and appropriate approval will be sought from higher authority.

- Although *"The Board still adheres to its comments on subject in its' Reply (Financial Years 2006-2008)"* which stated that *"In actual fact these funds belonged to the Kunsill Nazzjonali SCOOPS"*, this issue is being discussed during Board meetings with the possible revival and transformation of the Scoops Project Fund.

- In order to avoid typing errors and incorrect amounts accrued, it was mutually agreed that, future NAO audits will be planned and accordingly carried out after the month of April.

- The Board does not agree with NAO's recommendation to reclassify certain assets, and will further discuss this reclassification.

- Management did not address NAO's recommendation with regards to 'Inaccuracies in the Financial Statements and Nominal Accounts'. Following NAO's restatement that the proposed audit adjustment should be passed in SAGE, it was agreed to account for it in Financial Year 2011.

- Following the exit meeting, NAO was informed that the implementation of the Fixed Assets Register has commenced. Furthermore, a review of the Inventory Database is to be carried out into the near future in order to identify the wrong classification numbers, wrong sequence numbers and obsolete items.

With respect to 'Additions' in the Inventory Databases, the Board stated that both the two printers and CCTV equipment were correctly included in the Inventory Databases as shown in documents presented with Management comments. However, during the audit, NAO was not provided with an updated version of the Inventory Databases.

- With respect to 'Verification of Refunds Claimed and Invoices Paid', the Board will *"... strive to avoid such issues in the future."*

- It is not clear whether *"... any Interest generated from moneys deposited in the Co-operatives Societies Liquidation Account should be handed over to the CCF."* So far, no direction was sought and in fact it is still being discussed during the Board meetings.

- The Co-operatives Societies Act specifically states that *"... any sum deposited into the Co-operative Societies Liquidation Account shall, after a period of five years, be transferred to the Fund."* Although some funds were not transferred after the lapse of five years due to other matters of disagreement with CCoF, *"... the Co-operatives Board believes that by doing so, the Board as a regulator, acted within its legal parameters"*.

Social Security Department
Children's Allowance

Background

Children's Allowance (CA) is regulated by Articles 76, 76A and 77 of the Social Security Act (SSA), Cap. 318 of the Laws of Malta. As from 5 January 2008, all households with children under 16 years of age, and satisfying the eligibility criteria, became entitled to receive CA. Additionally, such households may also be eligible to a Disabled Child Allowance (DCA), at the rate of €16.31 per child per week, if it is certified that the child suffers from any of the conditions stipulated in the Act.

Eligibility to CA depends on the income of the family and the number of children under 16 years of age in that family. Families with a household income exceeding €23,923 are entitled to the fixed CA of €250 per child per annum. In the case of those families where the household income is €23,923 or less, the eligibility to CA is calculated at a rate of 6% per child on the difference between the declared income of the family for the previous year (minimum threshold set at €4,658) and the established threshold of €23,923. Such payments are made every 13 weeks in advance starting from the first Saturday of July.

The minimum threshold of €4,658 is considered to be the household's declared income when claimants are in receipt of Social Assistance (SA), Unemployment Assistance (UA) or Age Pension (AP).

CA at the rate of 2% of the difference between €23,923 and the household income may continue to be paid in respect of children aged over 16 but under 21 years, if the child is registering for his/her first employment under Part 1 of the Employment Register or attending full-time education or training.

Care Allowance is payable to the head of household for every child certified by a competent authority either as being fostered or under care in an institution. As stipulated in SSA Part VIII of the Fourteenth Schedule, a €70 weekly rate shall continue to be payable when the child is over 16 but under 21 years of age.

The audit covered CA for the year ended 31 December 2010, during which, a total of €38,351,291[1] was disbursed. This represented 5.47% of the total Social Security Benefits which collectively amounted to €701,343,416[2].

Audit Scope and Methodology

The objectives of the audit were to verify that the methods adopted in granting CA to beneficiaries were in compliance with SSA, ensure that adopted procedures and internal controls are adequate, and establish the role of the Benefit Fraud and Investigation Department (BFID) with respect to CA.

Meetings were held with the Department of Social Security (DSS) officials with the aim of obtaining an overview and to analyse the risks and controls within the system. A meeting was also held with the Malta Information Technology Agency (MITA) officials to discuss the extraction of information from the Social Assistance and Benefits System (SABS) required by the

[1] Expenditure excludes payments to institutions and refers to payments made from 24 December 2009 to 23 December 2010. (Source – communication received from Director (Benefits) dated 13 April 2011).
[2] Expenditure refers to payments made from 24 December 2009 to 23 December 2010. (Source – communication received from Director (Benefits) dated 13 April 2011).

National Audit Office (NAO). Subsequently, a meeting was held with Director (BFID). Issues raised during these meetings were documented and confirmed by the auditee. A systems overview was prepared identifying risks and other areas of concern.

Data extracted from SABS, submitted by DSS, contained 44,499 beneficiaries. Due to the relatively low risk rate, NAO deemed it prudent enough to exclude beneficiaries entitled to CA at the flat rate from the audit scope, thus leaving a total population of 26,124. Based on a Confidence Level of 90% and a Confidence Interval of 10%, a sample size of 68 was selected for testing. Most of the sample consisted of households whose declared income was €23,923 or less, making them eligible to a means test. However, the sample also contained households in receipt of DCA and Care Allowance.

Initial information was obtained from the examination of application forms and other relevant documentation submitted by claimants. Personal details of the members of the household were verified with SABS and details in the Common Database (CDB). The Employment and Training Corporation (ETC) database was consulted to check the employment of members of households, where relevant.

Testing confirmed whether the allowance was granted subject to the provisions outlined in SSA. Overpayments and underpayments resulting from audit testing were confirmed with DSS.

Key Issues

Lack of Penalties with regards to Benefit Fraud

SSA does not provide for penalties when claimants are found to be in breach of its provisions. Benefit, pension, allowance or assistance repayment terms are outlined in Article 102 (1i) which only states that *"where such overpayment occurs as a result of the non-disclosure or misrepresentation of a material fact (whether the non-disclosure or misrepresentation was or was not fraudulent) the rate of recovery by means of deductions from any benefit, pension, allowance or assistance to which he thereafter becomes entitled shall be determined by the Director but shall in no case be less than the equivalent of 10% of the rate of benefit, pension, allowance or assistance to which he thereafter becomes entitled….."* .

Overpayment Notification does not request Claimant to refund Amount Overpaid

Claimants are notified of any overpayments by means of notifications sent by post. Through this document, the claimant is informed that such overpayment will be deducted from current and future DSS payments, but is not specifically requested to refund the amount overpaid.

The following cases encountered during the review merit particular attention:

- Care Allowance paid to a beneficiary resulted in an €840 overpayment which was created in 2010. When queried whether this overpayment was recouped, DSS replied that *"The overpayment has as yet not been recouped as claimant does not have any live benefits"*.

- A claimant had two SA overpayments, outstanding balances collectively amounting to €3,971. These were being repaid at a rate of 10% through deductions from her CA benefits. At this rate, it would take DSS nearly 21 years to collect such overpayment. However, the claimant will be receiving CA for two children until 2012 and CA for one child until the year 2015, due to the children reaching 16 years of age.

  On 2 May 2011, NAO queried whether evidence was available showing that the claimant was requested to refund the overpayment. The reply received was inconclusive, as it stated that *"……… claimant was informed of the overpayment in August 2010. In April 2011 claimant had called at District Office and requested a copy of said document. File is to be sent to Sliema District Office so that the requested document is handed over to claimant"*. Subsequently, DSS provided a copy of a document sent to the claimant requesting her to visit the respective Area Office for the necessary arrangements to be made to settle the overpayment. Such communication was dated 3 May 2011, a day after this issue was raised by NAO.

Control Issues

Opportunities for improvement were identified in the following areas:

Overpayments/Underpayments of Children's and Care Allowances

Testing revealed the following overpayments/ underpayments. Following the audit NAO was informed that, in their majority, DSS created an adjustment to recoup overpaid amounts.

- ETC records indicated that spouse recommenced employment but DSS was not notified of the change in circumstances. Consequently, CA was still being paid at the rate based on the assessment which excluded the spouse's income. This resulted in an overpayment of €1,628 in respect of a 40 week period.

- The CA assessment failed to take into consideration Social Security Contributions amounting to €1,326. This created an underpayment of €159.

- A beneficiary was underpaid Care Allowance amounting to €420, due to the fact that the benefit in respect of the eldest child was erroneously stopped when she reached 18 years of age. As the foster care placement terminated six weeks after the child's eighteenth birthday, the allowance should have been paid for a further period of six weeks. DSS confirmed that it has taken the necessary remedial action.

- The weekly rate at which Care Allowance is payable increased from €40 to €70 as from 2 January 2010. During April 2010, DSS recouped payment for 117 weeks in respect of two residents living in an institution at the rate of €40. However, 26 weeks related to 2010 and thus, had to be recouped at the rate of €70, and not €40.

  DSS informed NAO that the institution will be requested to refund the amount overpaid. Furthermore, as the report which calculates the periodical allowance due to institutions is computer generated, the Department requested MITA to explain the reason for this error.

Care Allowance Application not valid

A Care Allowance application presented to this Office, substantiating payments issued by DSS, was invalid as it had missing signatures and was not certified by Appoġġ.

Employment Records not confirmed

ETC records showed two beneficiaries as being in employment. However, no such employment was declared in the respective CA applications. Upon enquiry, DSS was not in a position to provide evidence that this employment was ever confirmed or otherwise by the Department.

Reasons put forward by DSS were that Case Papers from 1996 to 2000 were removed and that one of the cases goes back to 1992 when CA was not means tested. As a result, NAO could not establish whether the household's income declaration, which is the basis of assessment of the weekly CA rate, was correct.

Compliance Issue

No Reply received from DSS following a request for Information

NAO requested DSS to confirm whether there were any departmental files containing directives, memos or instructions circulated to DSS staff regarding the collection of overpayments or repayment rates following decisions taken by Management. No reply was received even though a reminder was sent by NAO during the finalisation of this audit.

Consequently, NAO was not in a position to conclude whether DSS staff were compliant with departmental instructions, if issued, or whether staff has ever been properly directed on the necessary course of action in case of overpayments.

Recommendations

Key Issues

Lack of Penalties with regards to Benefit Fraud

SSA is to be amended to include penalties in order to pre-empt benefit fraud. Subsequently, penalties should be enforced in respect of fraud cases which result in overpayments to instil a culture that fraud involving public funds is considered and may be treated as a crime.

Overpayment Notification does not request Claimant to refund Amount Overpaid

DSS is recommended to redraft the overpayment notification. This is to include a specific request for the claimant to visit the respective Area Office and effect the necessary arrangements for the repayment of the amount due. Whilst this will not necessarily make claimants pay instantly, it will at least make them aware that overpaid amounts are expected to be repaid within an agreed time period.

Control Issues

Overpayments/Underpayments of Children's and Care Allowances

Periodic reviews of applications are to be carried out. During this review, all sources of information available should be accessed to check for any possible changes in circumstances. Although this will not eliminate the incidence of inaccuracies, it will enable better control.

The Department should also consider reviewing similar cases involving the refund of overpayments from institutions which spanned over more than one calendar year and involved a change in the weekly rate. This will confirm whether the computer generated error was repeated in similar situations.

Care Allowance Application not valid

It is advisable that an exercise is carried out to identify whether this was an exceptional case or otherwise. All Care Allowance applications are to be duly signed and certified in accordance with SSA.

Employment Records not confirmed

Employment details of both claimants and beneficiaries should be confirmed with ETC records. In the event of inconsistencies or uncertainties, DSS should obtain the necessary evidence prior to awarding the allowance.

Compliance Issue

No Reply received from DSS following a request for Information

Attention is drawn to the Auditor General and National Audit Office Act 1997, which specifies that NAO auditors are to have free access to all documents and other information that may be required for the carrying out of their duties.

Management Comments

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

- Whilst confirming the fact that SSA does not provide for the issue of penalties, DSS made reference to Articles 117, 119 and 120 of the same Act, which dictate penalties imposed on conviction.
- The newly set-up Overpayments Section in Gozo will ensure the follow-up of overpayments with respect to CA.
- In most cases, it is difficult to follow up on collection due to financial difficulties of beneficiaries.
- Normally, self-employed Social Security Contributions are uploaded automatically. If paid late, these would not show immediately but are inputted manually.
- Although SABS was updated to extend Foster Care Allowance until the age of 21, this beneficiary was inadvertently omitted. Two meetings were held with Appoġġ to streamline the operation and mitigate, or eliminate totally, such instances.
- DSS is in contact with MITA to check if there are similar instances of overpayments to institutions as the one reported by NAO.
- With regards to the Care Allowance application which was not valid, DSS obtained a written notification from Appoġġ, confirming that the claimant was still fostering the child.
- In reply to the instances when employment records were not confirmed, DSS informed NAO that, as far as it is aware, both companies are no longer in operation. In the case of one of the beneficiaries, the employment was not queried as it was not included in the list of individuals who declared a part-time employment with the Commissioner of Inland Revenue (CIR). However, in this case NAO noted that ETC records indicate a full-time and not a part-time employment.

  In the case of the other beneficiary, DSS stated that following the commencement of the full-time employment to which attention was drawn by NAO, the beneficiary started and terminated other full-time employments.

The reply to the Management Letter also included attachments evidencing correspondence and instructions outlining the procedure followed by DSS for the recovery of overpayments.

Health – Operational and Maintenance Expenses

Background

Up to 2010, the Ministry for Health, the Elderly and Community Care (MHEC) operated a centralised accounting system which gave rise to various internal and operational weaknesses. These weaknesses led to inadequate budgeting and various operational virements amongst the Cost Centres (CCs) which created further difficulties to monitor and reconcile funds.

Following the appointment of Director General, Financial Monitoring and Control Unit (FMCU) within MHEC, a review of the system was made and various changes came into effect as from January 2011. This reform favoured a system of responsibility accounting and regular cash flow reporting amongst stakeholders.

Audit Scope and Methodology

The objectives of the audit were to verify that Operational and Maintenance expenses incurred during the year under review were accurate, complete and free from material misstatement, as well as ensure that procedures adopted for procurement were adequate and in compliance with the applicable regulation and other relevant Circulars.

An overview of the procedures in place was obtained by means of meetings with the Director General, FMCU, and other officers in charge of Finance for CCs selected for testing.

A sample of 68 transactions was selected for the audit, proportionately covering Utilities, Materials and Supplies, and Professional Services within Operational and Maintenance expenses, incurred during the year ended 31 December 2010 for the following CCs:

- CC05 – Director General Resources and Support (DGRS)
- CC06 – Government Pharmaceutical Services
- CC07 – Mater Dei Hospital (MDH)
- CC08 – Sir Paul Boffa Hospital (SPBH)
- CC09 – Primary Health Care
- CC10 – Environmental Health

Key Issues

Expired and/or Unsigned Contracts

Social Impact Assessment Project

Consultancy services for a project at DGRS were not covered by a valid contract. A payment of €7,256 (excl. VAT) was made in this respect. However, the Permanent Secretary's approval only covered a maximum of €6,000 until a contract was signed.

A request to enter into a contract of service with the same advisor/consultant was made to the Ministry of Finance, the Economy and Investment (MFEI) on 2 February 2010. MFEI approval was granted on 15 March 2010, subsequent to the signing of the contract on 8 February 2010.

Rental of Pagers

A contract for the rental of pagers at MDH expired on 30 June 2007 and a new one was concluded two and a half years later on 1 January 2010, retrospectively with effect from 1 October 2007. The new contract did not cover the period 1 July 2007 to 30 September 2007, implying that during that period pagers were being rented under an expired contract.

Provision of Domiciliary Nursing and Midwifery Services

An agreement was signed on 31 January 2007 between the Malta Memorial District Nursing Association (MMDNA) and Director General, Health, for the provision of services by MMDNA to the Maltese Islands community free of charge. Post-natal visits were agreed at €2.76 (Lm1.187) for a 20 minutes visit.

A letter by MMDNA, dated 14 December 2006, stated that post-natal visits were to be charged at €4.23 (Lm1.817). Another letter dated 19 September 2007 stated that such visits were being revised to €5.07 (Lm2.175) for a 25 minutes visit and that the signed agreement erroneously stated the cost of post-natal visits at €2.76 (Lm1.187) instead of €4.23 (Lm1.817). There is no confirmation of mutual agreement as these letters were only written by MMDNA. Moreover, signed copies were not held at MHEC and thus were not provided to the National Audit Office (NAO) during the audit.

Provision of Services without Direct Order Approvals

Secretarial Services to Tenders Adjudication Boards

Since February 2009, the Secretarial Services to Tenders Adjudication Boards were neither covered by a contract nor MFEI direct order approval. On 9 November 2009, a request was made to MFEI in this regard, however approval was not granted since MFEI *"... feels that such tasks are more pertinent to be performed by permanently employed staff…"*. Following the Permanent Secretary's advice, the service provider was informed on 16 December 2009 that only the services rendered so far would be paid.

Service and Maintenance Agreement for a Medical Linear Accelerator at Sir Paul Boffa Hospital

The last direct order approval from the then Ministry of Finance (MFIN) for a service and maintenance agreement was granted *"... for a maximum period ending July 2007"*. However, the last agreement entered into covers the period 1 October 2009 to 31 December 2012. Thus, services provided from August 2007 up to the writing of this Report were not covered by a direct order approval.

Direct Order Approvals Disregarded

Provision of Services from a Local Consultancy Firm

Following a mid-2008 Ministerial meeting on Financial Strategy for the Health Sector, a local consultancy firm was engaged to provide financial consultancy services and assist MHEC in introducing a robust system of the invoicing of health services by MDH, at an hourly rate of €25 (excl. VAT). Direct order approvals were granted by MFEI covering six month periods from 20 November 2008 to 31 December 2010 and a contract was signed between the firm and the Ministry for Social Policy. In the second approval, MFEI stated *"Please ensure that this direct order and its extension do not lead to a chain of direct orders, or extension thereof, in favour of the same service provider"*. Furthermore, in October 2010, the approval was supposedly granted *"On a last time basis"*.

The local consultancy firm was also engaged as a Financial Consultant within FMCU, to coordinate and lead the Financial Controllers until replacement of the present Director General FMCU. A contract[1] was signed and three direct order approvals, for a period of six months each, were also granted to this consultancy firm for the provision of these services.

Invoices for services provided under both agreements were not properly administered as no consideration was taken of the periods covered by the invoices *vis-à-vis* direct order approvals. Up to date of audit fieldwork (5 May 2011), invoices for the first agreement amounting to €11,555 had been paid to the firm in excess of direct orders granted and invoices amounting to a further €31,630 awaited MFEI approval. For FMCU services, only €45,320 out of invoices amounting to €48,970 could be paid, as authorised by MFEI.

Provision of Clinical Tests by a Local Service Provider

Authorisation by the then MFIN was granted on 2 July 1992 to St. Luke's Hospital (SLH), to obtain such services from third parties on a *"... temporary nature until suitably qualified staff are taken on."* A contract of agreement was never signed. On 26 April 2006, a request for the approval of arrear charges was made to MFIN who reiterated that the Ministry's approval in 1992 had been granted on a temporary nature and that *"Fourteen years have passed since that approval and it seems that the same individual*

[1] Audit disclaimer – transaction selected for testing was in relation to the first agreement. The file for the second agreement was not reviewed in detail since it was not part of our sample.

is still providing the EMG Clinical Tests. ... Maybe it is high time that this service is obtained through a public call for tenders, if SLH cannot provide it in house." MHEC pointed out that a call for applications was made by the Public Service Commission during 2002. However, the post was not filled in view of the specialised nature of the services requested.

From 2006 onwards, direct order approvals were sought retrospectively and approved on the condition that an *"... urgent call for application for employment on full time basis is issued without delay"*. Following approval on 8 July 2010, the Health Division (HD) entered into an official agreement with the current service provider and regularised the provision of services for a period of one year, during which an international call for services would be issued since, according to HD, locally no one else could provide such services.

Risks of Double/Unnecessary Payments

Water and Electricity Bills

Settlement by MDH of €724,128 due to Enemalta and Water Services Corporation during January 2009, was not reflected as paid in the invoices received from Automated Revenue Management Services Ltd subsequent to payment. Furthermore, a duplicate copy of an invoice was issued to MDH, with each invoice stating different amounts. These issues were still unresolved until the end of NAO's audit testing.

MDH offsets water and electricity bills through a lump sum payment direct debit transaction as directed by MFEI. A bill of €1,600 was partly settled through a set-off of €748 and a part payment of €852. However, details from MFEI show that the total bill was set off through the lump sum payment, thus resulting in a double payment of €852.

Maintenance of Pagers

A contract dated 1 January 2002 stated that the maintenance of pagers at MDH was to be carried out by the supplier at the purchaser's expense. This contract expired on 30 June 2007 and a new one was concluded on 1 January 2010, covering services retrospectively with effect from 1 October 2007. The new contract stated that *"Supplier shall, at its own expense, be responsible to provide the Services…"*. Since the former clause continued to be practiced even after expiry of the first contract, there is the risk that MDH incurred these expenses unnecessarily. MDH is in the process of checking all invoices covering repairs in order to figure out the total cost that should have been borne by the supplier. In addition, it is not clear which party should have borne expenses during July to September 2007 since this period is not covered by the contract.

VAT Payments on Services Rendered by a Foreign Supplier

A payment by MDH to the Value Added Tax (VAT) Department was made in respect of procurement of foreign services and supplies covering the three month period ending 30 November 2009. This payment included €136,152 VAT in respect of a service rendered by one particular foreign supplier. VAT amounting to €23,112 was also paid to the foreign supplier for the services rendered during the year.

Director of Finance at MDH confirmed NAO's conclusions that *"VAT has been partially paid twice………in the payments to-date to the supplier (the instalments effected to-date) and in the lump payment to the Commissioner of VAT even on amounts which have not yet been paid to supplier."*

Action by Management

A meeting was held between HD and a local audit firm, where the latter primarily advised that MDH should avoid entering into arrangements with any foreign intra-community suppliers when payments are done inclusive of VAT. MDH was further advised to try to recoup any excess payments either from the foreign supplier or from the local VAT Department.

Provision of Catering Services at Mater Dei Hospital

A service concession contract[2] for the provision of catering and retail kiosk services to visitors and staff at MDH was entered into between the Foundation for Medical Services (FfMS) and local caterers[3].

Supply of Lunches Exceeding a Quantity of 220

The contract specifies that lunch quantities up to 220 per week should be charged at €2.10 (Lm0.90) per lunch, however no prices are mentioned for lunches exceeding a quantity of 220, actually being charged at

[2] The supplier ensures the provision of staff meals at the agreed prices whilst using exclusively the hospital restaurant areas, in exchange for the agreed concession fees payable.

[3] Audit disclaimer – testing of this contract covered exclusively the Financial Expenditure and Compliance aspects. In view of time constraints, testing was neither comprehensive nor exhaustive in respect of tenders submitted by tenderers other than the chosen supplier, the one time payments paid to the concessionaire, payments for water and electricity in relation to the concession area borne by the latter, as well as, concession fees payable by him.

€4.19. Correspondence from the supplier to MDH dated 8 November 2007 stated that *"... the special price of ninety cents (Lm0.90/€2.10) per lunch is only for approximately two hundred thirty (230) lunches daily. ... Any number more than two hundred and fifty (250) lunches daily will have to be charged at Lm1.50 (€3.50) per lunch"*.

During a meeting between the main stakeholders, it was agreed that lunches supplied above a quantity of 250 up to 475 would be paid at €4.19 (Lm1.80) each and to obtain confirmation in writing from the concessionaire that these payment terms would be accepted *"... otherwise the contract no. of 220 will be used to calculate the payments"*. Up to date of audit, the supplier had not yet given a written acceptance of these proposed terms and matters were still unresolved.

New Clauses Introduced at Contracting Stage

The contract included two clauses regarding the payment of two considerable amounts payable by FfMS to the concessionaire. The first amount of €109,946 (excl. VAT) was for additional expenses incurred by the latter as a consequence of the client's request to commence provision of services approximately four months earlier. The second amount of €151,409 (excl. VAT) was in respect of disbursements for the supply and installation of certain facilities and equipment that the client was bound to provide for the performance of the service. Tendering documents did not reflect these substantial costs paid to the concessionaire at contracting stage, with the risk that other tenderers were at a disadvantage since such information was not known to them.

Breakfast and Sandwiches

The contract specifies two different rates for breakfast and sandwiches respectively, to medical staff on call. MDH is invoiced at the lowest rate for breakfast and the higher rate for sandwiches. However no evidence was available to specify which options were officially chosen by MDH. NAO was informed that in view of an oversight at tendering stage, only the higher priced sandwich could be accepted.

MDH is invoiced on a weekly basis for a fixed supply of 420 sandwiches. No controls are in place to verify that 420 sandwiches are actually provided by the supplier. Only random spot checks are performed, increasing the risk that in the eventuality of incorrect quantities of sandwiches supplied, these might go unnoticed. In addition, the Staff Meals Entitlement System report[4] does not include the quantity of sandwiches consumed by medical staff on call, with the risk that the weekly quantity of 420 ordered might not reflect the actual consumption.

Penalty Clauses and Insurance Policy

The contract states that should the client consider that the concessionaire has failed in its obligations as stipulated in the contract, the client will be entitled to carry out (or procure the carrying out) at the concessionaire's expenses such parts of the provision of services as considered necessary. However, the contract does not list any specific penalties which may be applicable in such cases. This may lead to possible disagreements between the parties in the eventuality of default by the concessionaire.

A copy of an up-to-date third-party insurance policy, required to be issued by the contractor, was not available at the time of audit. In the absence of such policy, the client may not be capable of proving coverage of any liabilities.

Concession Fees

FfMS receives concession fees and then forwards them to MDH. This method results in delays for MDH to receive and eventually post such fees in the Departmental Accounting System (DAS).

A portion of concession fees for 2007 and 2008 were either retained by FfMS to sustain prior year deficit or set off against other dues owed from MDH. Payments for the final quarters of 2009 and 2010 were posted by MDH in DAS in 2010 and 2011 respectively. Fees for the first quarter of 2011 were collected by FfMS but not yet forwarded to MDH, at least up to May 2011.

Concession fees collected during the period examined were deposited in expenditure account '3060 – Contractual Services (Others)' rather than accounted for in a revenue account. As a result, accounts in DAS and eventually figures published in the Financial Report do not reflect a realistic picture.

Other Competitive Service Providers

Fixed Telephony Services

Years back, MHEC had entered into one *"umbrella agreement"* for all its entities with a local telecommunication service provider, the then sole service provider for fixed telephony. Nowadays, other service providers within the market offer the same service, however all CCs tested (with the exception of SPBH

[4] The Staff Meals Entitlement System report lists the number and type of meals consumed during a given period. Meals consumed by medical staff are recorded in the system through the presentation of their identification card.

which was not tested in this regard) continued to follow the original agreement, with the risk that the other service providers are not being given the opportunity to provide such service. Several attempts were made in order to review the original agreement, however to no avail.

Procurement of Liquid Fuel

'MFEI Circular No. 9/2009 – Procurement of liquid fuels' states that *"The market for inland liquid fuel was liberalised in 2007"*, implying that liquid fuel could be procured from any other supplier. Up to date of audit, procurement of gas oil by MDH was still being made directly from the original supplier, with the risk that no comparisons were being made with prices offered in the market.

Control Issues

Payments Not Backed Up by the Necessary Documentation

Documentation in respect of six transactions was not available, even following several requests made by NAO, thus hindering NAO's testing. This indicates a poor control environment.

Expenditure Incurred on behalf of Other Locations

Cases were noted where expenditure on invoices included various locations that did not form part of CC making the payment.

In other cases, NAO noted that payments for the procurement of goods and/or services for the whole HD or for a number of CCs within HD, were made from one particular CC rather than the cost borne proportionately by each CC respectively. CCs bearing such payments were mainly DGRS and MDH. Upon inquiry especially regarding MDH, NAO was informed that *"... up to 31 December 2010 it was the practice to charge all stock items on MDH account (G07) since MDH is our main client"*, even though officers in charge at General Stores had access to other CCs' votes to raise Local Purchase Orders (LPOs) and issue Payment Vouchers (PVs).

Such procedures create difficulty to monitor those locations with higher spending and to hold them accountable for the respective expenditure.

Action by Management

As from 2011, all requisition forms have been amended to reflect the respective CC and recipient of goods and/or services. All necessary approvals, including signatures thereof, are being collated on requisition forms and the respective entity is being charged accordingly.

Non-adherence to Terms and Conditions

Supply of Patient Meals to Mater Dei Hospital

The contract states that *"The price per Meal will be adjusted every twelve (12) months from Commencement Date, and any such change shall be based on the Inflation Rate in Malta."* Upon testing, NAO noted that prices were only adjusted for inflation in 2008 after the first 12 months from commencement date, following which the same prices continued to be used. The lack of revision of inflation rates may result in over/under payments by MDH.

Bank Guarantees

Two cases were noted where the Bank Guarantee was issued later than the date specified on the Letter of Acceptance (LA).

Shortcomings in the Supply of Dairy Products to Mater Dei Hospital

There is no formal agreement backing up procurement from the sole local provider of dairy products as *"MDH continued on the previous practices being used by all Government Departments"*. This creates the risk of having no guarantee for the quantity and quality of supply and that there are no penalties to be levied in case of default. Also, standard rates are charged by the supplier in spite of the vast quantities supplied.

Additionally, NAO noted that:

- various discrepancies were observed amongst the documents themselves and the spreadsheets contained a number of errors and inconsistencies;
- invoices from the supplier did not clearly distinguish between unreturned and damaged crates; and
- two different delivery notes were provided for the same day and another two delivery notes were not available. Manual adjustments to quantities or dates were not endorsed.

These matters indicate a poor control environment, evidenced also through the lack of scrutiny of invoices prior to payment.

Commitment of Funds in Departmental Accounting System subsequent to Receipt of Invoice

In 15 out of 68 (22%) transactions tested amounting to €300,217, it was noted that the dates of LPOs/LAs in DAS did not precede the dates of the invoices, indicating that funds were not committed in DAS prior to procurement of items or provision of service. There is the risk that budgetary controls are not being enforced.

Postings to Inappropriate Accounts

In 22 out of 68 (32%) cases tested, expenses were misallocated to inappropriate accounts. Such procedures may lead to insufficient funds for the payment of other expenses.

Errors Noted in Invoices

Nine invoices were not signed as certified correct, only three of which included a rubber stamp. Controls over endorsement of invoices is not adequate.

Inconsistencies

Filing Procedures

Consistent procedures for filing of documentation were not followed amongst all CCs. Most of the times information was not readily available upon request as only copies of PVs and invoices were found at the respective CCs. Original PVs, LPOs and invoices were requested and obtained from Head Office.

Debit Advice

In four cases tested, the Central Bank of Malta advice was not filed with other relevant documentation. The amount of extra charges incurred upon final payment through telegraphic transfer could not be verified by NAO.

Compliance Issues

Financial Limits Exceeded

There is the risk that financial limits imposed by Public Contracts S.L. 174/04 Article 19 (1d) were not adhered to as departmental calls for tenders were not made even though payments exceeded €6,000 in the following cases:

- Total payments by HD to a local supplier for water amounted to €23,738 during 2010. Procurement was being made from the open market and a contract for the supply of water was never entered into.
- Procurement of various physiotherapy items costing €6,795[5] was made by SPBH following a request of quotations. No approval from higher authority was sought.
- Procurement from the same supplier of two specific but similar disinfectants was made by MDH through quotations. Total cost amounted to €6,130 (excl. VAT). In principle a departmental call for tenders should have been made since items were similar in nature and were procured again in the following year. When queried, it was stated that since the items were still new, the exact annual consumption was not known.

NAO is of the opinion that in the following cases, procurement should have been made through the Contracts Department rather than a departmental call for tenders:

- A departmental call for tenders was made for the procurement of interfold hand towels for MDH. Correspondence in the relevant file stated that yearly 26,000,000 sheets are consumed by MDH and should be procured annually through tenders. However, the tender was issued for 10,000,000 sheets based on a previous tender where it was stated by the Purchasing Manager at MDH that *"This may well be issued with 2 Dept. Tenders every 6 months"*.

  As stated by Public Contracts S.L. 174/04 Article 15 (3), *"Contracting authorities shall not adopt any mechanism, including sub-division of public contracts, the purpose of which is to circumvent the application, in part or in whole, of these regulations."*

- Three departmental tenders were made by MDH during 2010, for the procurement of plastic bags. In all cases departmental limit was exceeded as incorrect costs were estimated prior to issuing departmental tenders. In two of these tenders, the differences in costs was due to estimates which were based on tenders awarded back in 2005.

  Approvals were sought from Director General Contracts, and granted by the General Contracts Committee in two of these tenders. With respect to the third tender, the Permanent Secretary disagreed and stated *"I do not agree that we obtain DG Contracts endorsement to exceed estimate by three times as much."* The Permanent Secretary

[5] €6,795 is the full cost paid and no VAT was charged on this supply.

authorised awarding of tender for procurement not exceeding €55,000[6] so as to remain within the threshold of departmental limit. Tendering documents were thus manually amended to reduce the quantity allowed to be ordered.

Endorsement by Unauthorised Officers

'Treasury Circular No. 5/2008 – Authorised Signatories' states that *"In line with several Treasury Circulars, Heads of Department and all other Accounting Officers are reminded that they must keep this Office regularly informed of officers authorised to act as signatories ... "*.

However, the authorised lists of signatories for a number of CCs were updated as per the foregoing Circular during 2008, following which there were no further updates notwithstanding changes in officers between 2008 and 2010. Other CCs did not have an authorised list of signatories as per mentioned Circular. As a result, signatories on a number of documents could not be identified and their authority could not be determined, even though NAO was verbally informed that these officers were designated as authorised signatories.

Non-compliance with VAT Legislation

VAT Act, Cap. 406 Articles 50 (1) and 51 specify what type of documents should be provided by suppliers depending under which VAT Article they are registered. Inquiries were made in order to establish under which Article HD is registered. However this was not known and until the end of audit testing, this information was still pending. This implied that officers in charge might not be well informed of VAT status and its requirements, thus cannot determine which documents should be received from suppliers backing up payments made.

In view of this lack of information, during testing NAO only noted whether at least a valid tax invoice or a fiscal receipt was provided in the form and manner as set out in the Twelfth and Thirteenth Schedules of the VAT Act. In 28 out of 68 (41%) cases tested, PVs were either backed up by an invalid tax invoice or lacked a tax invoice or fiscal receipt, as applicable.

Payment of Long Outstanding Arrear Charges

'MF Circular No. 2/2007 – Amendments to the General Financial Regulations – Arrear Charges' stating that *"... it is to be ensured that claims spilling over from one year to the next are kept at the absolute minimum ..."* was not invariably adhered to as evidenced in the following cases:

- During 2010, an invoice dated 11 January 2008 was paid by SPBH, which invoice indicated that an amount of approximately €9,701 was overdue.

- An invoice dated 2009 in respect of fuel for boiler at MDH was tested. While scrutinising the related file, similar invoices which were still outstanding since 2007 and 2009 were noted. NAO was informed that such invoices were received internally late.

Recommendations

Key Issues

Expired and/or Unsigned Contracts

Limits stipulated by the Permanent Secretary should be observed and contracts should be signed only following the granting of approval from MFEI.

It is to be ensured that services are covered by valid contracts at all times and contracts should be renewed immediately upon expiration if it is Management's intention to renew such services. Otherwise, new quotations or tenders, as the case may be, should be timely sought so as to make use of the most advantageous offers within the market.

Agreements must always be endorsed by both parties and signed copies of relevant documents should always be obtained. A new agreement with the correct prices and duration of services is to be officially set up between MMDNA and HD.

Provision of Services without Direct Order Approvals

Agreements are not to be entered into, and services are not expected to commence, prior to appropriate direct order authority and approval being granted by MFEI.

Officers in charge are to ensure that payments made are always appropriately approved.

Direct Order Approvals Disregarded

MFEI direct orders are to be observed at all times. NAO further recommends that pending matters with regards to financial consultancy services are resolved with MFEI without further delays so that payments can be regularised.

MDH is to obtain the most competitive prices for clinical test services from within the local and international

[6] €55,000 inclusive of VAT, thus a net amount of €46,610 not exceeding the threshold of €47,000.

markets. Similar instances in the future are to be regularised without extensive delays.

Risks of Double/Unnecessary Payments

An attempt to resolve issues regarding water and electricity bills is to be made without delay. Payments for maintenance of pagers, unnecessarily borne by MDH, are to be recouped from suppliers. Between the expiry of an old contract and the renewal of a new one, conditions should be clearly set with suppliers so as to avoid any risks of unnecessary payments.

VAT Payments on Services Rendered by a Foreign Supplier

MDH is encouraged to perform an exercise to review agreements and trading made with foreign suppliers and payments made thereto, in order to try to identify and then recover any other double payments of VAT.

Provision of Catering Services at Mater Dei Hospital

A clear agreement for lunch quantities in excess of 220 should be reached with the concessionaire without further delays. Terms and conditions agreed upon are to be stipulated in the contract so that procedures and payments are legally backed up.

Total estimated costs, to be incurred at contracting stage, should always be provided for at tendering stage so as to ensure fair proceedings with all potential tenderers submitting their bids.

All decisions made, especially involving the choice of prices over others, should invariably be clearly documented to evidence diligence used regarding prices and specifications decided upon.

Frequent spot checks are expected to be performed with regards to the quantities of sandwiches supplied by the concessionaire and related evidence retained. In addition, the Staff Meals Entitlement System report is also to include a record of the consumption of sandwiches by medical staff on call.

The client is to consider amending the contract so as to include specific penalties should the concessionaire fail to meet any of its obligations. Terms and conditions of the contract are to be adhered to at all times.

Concession fees which are to be forwarded to MDH in a timely manner, ideally are to be posted in an income account so as to separately record the revenue generated.

Other Competitive Service Providers

The Ministry and all its entities are to ensure that the most advantageous and fair prices within the market are benefited from and that all relevant Circulars are invariably adhered to.

Control Issues

Payments Not Backed Up by the Necessary Documentation

Service providers should always be requested to provide all copies of invoices/receipts backing up payment, which are to be retained in order to provide sufficient audit trail and supporting evidence.

Expenditure Incurred on Behalf of Other Locations

Responsible officers should scrutinise in detail invoices received by suppliers and ensure that the relevant CC is only charged with expenses made by the locations which fall within that particular CC.

Non-adherence to Terms and Conditions

Adherence with all the terms and conditions specified in the contract and LAs respectively is to be ensured.

Shortcomings in the Supply of Dairy Products to Mater Dei Hospital

MDH is recommended to enter into a formal agreement with the supplier and negotiate favourable and discounted rates in view of the substantial quantities procured.

Controls over verification of invoices paid should be strengthened and adequate backing documentation is to be requested and retained.

Commitment of Funds in Departmental Accounting System subsequent to Receipt of Invoice

Expenditure is to be duly authorised and, wherever possible, committed prior to being incurred, thus strengthening budgetary controls over the procurement procedures.

Postings to Inappropriate Accounts

Postings of expenditure are to be appropriately made in each respective Nominal Ledger account.

Errors Noted in Invoices

Controls over the scrutiny and computation of invoices are expected to be enhanced through double checking by a second officer and controls over endorsement of invoices are to be strengthened.

Inconsistencies

It is being recommended to ensure uniformity of procedures throughout all CCs. Officers in charge are to ensure that relevant documents are attached and filed together.

Compliance Issues

Financial Limits Exceeded

The conditions and thresholds imposed by the Public Contracts Regulations should be adhered to at all times. It is of utmost importance that appropriate quotations are obtained from the market in order to establish a reasonable estimated value.

Endorsement by Unauthorised Officers

In all instances documents are to be signed by authorised officials. Related lists are to be compiled and updated in order to ensure that the relevant Circular is being adhered to.

Non-compliance with VAT Legislation

It is being recommended that officers in charge be well informed regarding VAT status and ensure that documents backing up payments meet the criteria set out in VAT Act. Defaulting suppliers are to be reported timely so that the required corrective action can be taken by VAT Department as per MF Circular No. 5/2002.

Payment of Long Outstanding Arrear Charges

It must be ensured that MF Circular No. 2/2007 is adhered to and arrears are to be paid without any unnecessary delays.

Management Comments

Management concurred with the recommendations put forward by NAO. The following comments were also provided:

- Approval was granted by the Department of Contracts to change the covering approval for rental of pagers as from July 2007 rather than October 2007.

- A new revised contract between HD and MMDNA will commence in January 2012. Notwithstanding this, *"... an audit review for the year ending December 2011 will be carried out by FMCU during the last quarter of this year"*.

- The entity responsible for the management of MMDNA contract, was originally within the remit of Head Office and subsequently moved to Primary Health Care and then to the Elderly Department. *"This could be an attributable factor for the inability to trace the requested documentation."*

- NAO's observation regarding the medical linear accelerator was already brought to MFEI's attention, however the approval in retrospect was not granted. Since this service is vital for the ongoing operation of the only linear accelerator locally, SPBH has no other option but to ensure that this service is not jeopardised. Recently, another linear accelerator has been commissioned and is being also used for the provision of this essential service.

- The issue regarding the payment of €724,128 was finally regularised in the bill issued on the 12 May 2011. With regards to the balance of €852 that was paid twice, the balance will be offset against other bills and it is envisaged to be fully eliminated by the end of 2012.

- FMCU has engaged a local consultancy firm to look into VAT issues of the most material and high risk areas within MHEC. From a review by the latter and an internal exercise by MDH's Purchasing Department to assess major contractual agreements with foreign suppliers, it resulted that no other instances of double payments were identified. MDH will try to recoup the excess VAT paid to the foreign supplier from future payments.

- A meeting will be set with the supplier of lunches at MDH in order to discuss the threshold and price of lunches supplied. Other observations noted by NAO with regards to the current contract will be dealt with in the 2014 contract.

- Periodic spot checks on sandwiches will be carried out at the time of delivery.

- Concession fees are received in view of expenditure incurred by the hospital to maintain the restaurant area, thus *"... we consider it more appropriate to treat this payment as a contribution towards the significant costs of running the area. This is even more important in view of the decreased budget allocated to MDH for such purposes."*

- Head FMCU requested Department of Contracts' permission to enter into a negotiated procedure with the telecommunication service provider. Approval was not granted and direction was given to take note of other economic operators in the market, with the aim to instil competition leading to more favourable pricing.

- Tenders for the provision of clinical tests and the procurement of liquid fuel have been published and are proceeding in line with the Public Procurement Regulations.

- As to payments not backed up by the necessary documentation, Management noted that *"... the unclear lines of responsibility and skewed structures within the accounting set up at the time could have well be the main contributing factor to this scenario"*.

- *"Charging either CC5 DGRS or CC7 MDH in view of it being the largest consumer has been completely stopped"*. General Stores officers now concentrate only on procurement and have nothing to do with payments or issuing of LPOs. Moreover, several other responsibility centres have been opened in DAS in order to enable better visibility of expenditure, particularly in those CCs where material expenditure was being lost within other DGRS payments.

- Adjustments regarding inflation rates have been agreed upon with the supplier and will be applied retrospectively as necessary.

- Controls of counter checking with supplier and double checking internally have been introduced upon the supply of dairy products. The total quantity of crates received and those returned are being recorded on an excel sheet. Invoices are being double checked and certified correct before being referred for payment.

- Prior to the reform, LPOs were dealt with by General Stores and PVs were then either issued by Supplies or Central Accounts. NAO was informed that *"This has been COMPLETELY STOPPED"* and now only a few chosen officers within centralised accounts have the authority to issue LPOs.

- Accounting officers have now learnt to post appropriately and access funds from the right Nominal Ledger accounts. A system of virements between recurrent votes is being adopted, which should reduce the incidence of postings to wrong accounts. The old practice of viring funds from one CC to another was completely stopped so as to promote better control of funds rather than rely on mid-year funds made available from other CCs.

- All payments are being endorsed by Head FMCU for control and double checking purposes.

- In view of the reporting function limitations of DAS, MHEC intends to implement Access Dimensions Financial Package in January 2012. This will enable Centralised Accounts to capture all invoices irrespective of whether paid or not, thus obtain a full picture of the operational cost incurred rather than simply payments effected. This system should facilitate extracting information for analytical and decision making purposes as well as compiling information for Parliamentary Questions.

- In January 2011 the high consumption of water was noted and a consumption analysis exercise was carried out. Tender specifications were compiled and consolidated with MDH's tender. *"Procurement will from now onwards be covered by tender as recommended"*.

- *"A revised list of signatories was compiled including all Financial Controllers employed with the various MHEC entities. Certain officials were also eliminated from the list to ensure that such a crucial area rests within the responsibility of a limited number of qualified persons who can be held liable and responsible if the need arises."*

- In view of the accounting principles and technical knowledge required in VAT area, the consolidation and updating of VAT return are presently carried out by Financial Controller FMCU Head Officer. Significant suppliers who are not quoting customer VAT number on their invoices will be requested to include such reference.

Ministry of Finance, the Economy and Investment

Fully-Expensed Cars within Extra Budgetary Units

Background

MFC Circular No. 5/98 lists the officials of Extra Budgetary Units (EBUs) who are entitled to a Fully-Expensed Car (FEC). Other officers, such as Managers, could also be entitled to a FEC if stipulated by their Service Agreement Contract. The purchase and use of these official cars are regulated by several Ministry of Finance Circulars and other regulations. *A list of these Circulars is found in Table 1.*

These Circulars regulate mainly the Retail Price (RP) of the vehicle, the fuel allowance and Engine Capacity (ENC) limits, on the basis that the standard of the vehicle should reflect 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. Traffic fines emanating from the use of FECs are regulated by Section 8.2.6 of the Public Service Management Code (PSMC) 10th Edition. Furthermore, Fringe Benefits (FBs) congruent to the use of FECs are also regulated by Subsidiary Legislation 123.55 - Fringe Benefits Rules.

The Financial Policy and Management Division (FPMD) within the Ministry of Finance, the Economy and Investment (MFEI) operates a Fleet Management System (FMS) which is utilised across most of the Ministries and Departments, and a limited number of EBUs within the Public Sector. This system allows users to manage their fleet which can include both FECs and General Use (GU) vehicles. Amongst other purposes, FMS controls the fuel allowance limits.

Audit Scope and Methodology

The objectives of this audit were to obtain a general overview of the extent of compliance with existing rules and regulations governing FECs in use within selected EBUs during the period January to November 2010. A similar audit concerning FECs in use during 2008 across the Public Service was carried out and reported upon in the Auditor General's Annual Audit Report, Public Accounts 2009.

The main objectives of this year's study focused on the robustness of controls in ensuring that:

- the regulations governing the management of FECs are being observed by EBUs;
- FBs arising thereof are correctly calculated in line with the Fringe Benefit Tax Guide issued by the Inland Revenue Department; and
- controls are in place with respect to expenditure related to leased and hired FECs.

The outcome of this audit is aimed to assist both top management across EBUs and FPMD to strengthen the existing internal controls where necessary, thereby improving the management and control of their FECs fleet.

Following a request to MFEI, a list of EBUs as at 30 September 2010, comprising 46 EBUs, was obtained from the National Statistics Office. To meet the scope of the audit, the National Audit Office (NAO) adopted a case study approach, in which 17 (37%) EBUs were randomly selected, with particular attention given to the estimated expenditure for the year 2010. A Questionnaire, was then forwarded to the selected EBUs. The Questionnaire was based on Directives and provisions contained in the relative Circulars and regulations governing FECs.

The structure of the Questionnaire was as follows:

1. General Information on FECs assigned to officers of EBUs.
2. Purchase and Disposal of FECs for the period January to November 2010.
3. Purchase of FECs by retiring officers during period January to November 2010.
4. Tax on FBs on the use of FECs.
5. Leasing/Hiring of FECs.

Replies submitted were analysed to verify as to whether EBUs are in compliance with the existing Circulars and regulations governing FECs. Where applicable, replies submitted were also verified against information within the FMS. All 17 respondents timely submitted their replies.

Six out of these 17 respondents, representing 35% of total replies received, being the University of Malta, Malta Enterprise, Industrial Projects and Services Limited, Malta Government Technology Investments Limited, Malta Communications Authority and WasteServ Malta Ltd, stated that during the period under review none of their officials made use of a FEC.

NAO obtained from FPMD a list of all Ministries, Departments and EBUs whose vehicles were included in FMS as at 4 November 2010. As at that date, only four out of the total of 17 (24%) selected EBUs were using FMS, these being MEPA, Malta Tourism Authority (MTA), Heritage Malta (HM) and WasteServ Malta Ltd.

Introduction

Profile of Officers entitled to a Fully-Expensed Car

According to respondents, there were 87 officers entitled to a FEC, 57 of which, representing 66% of officers entitled to a FEC, made use of 56[1] FECs during the period January to November 2010. These officers consist of two Chairmen, four Chief Executive Officers, one Director General, nine Directors, 18 Managers and 23 other officers.

The remaining 30 officials, representing 34% of all officers entitled to a FEC, opted for a car cash allowance as per their contract of employment. These consist of two Chief Executive Officers, 10 Managers, and 18 other officers.

Description of the Fully-Expensed Cars Fleet

Eight out of the 56 cars, representing 14% of total FECs being used by officers during the period under review, were being leased, six of which by MTA, while the remaining two by the Foundation for Medical Services (FfMS). On the other hand, MEPA opted to hire all of its 35 FECs, representing 63% of the FECs fleet. The remaining 13 FECs have been purchased in previous years by the various EBUs.

The 56 FECs fleet is composed of 40 vehicles equipped with a petrol engine, representing 71% of the fleet, 15 cars (27%) with a diesel engine and one car that runs on biodiesel.

ENC of these cars ranges from 796cc to 2664cc. Three hired FECs, representing 5% of the fleet, had an ENC of less than 801cc, while 10 cars (two of which were leased and five hired), representing 18% of FECs used by officers during the period under review, had an ENC of more than 1600cc. The largest number of vehicles falls in the range from 801cc to 1400cc, with 26 cars, representing 46% of 56 FECs. Twenty-two of these FECs were hired. The second largest number of FECs falls in the range of 1401cc to 1600cc, with 17 cars, representing 30% of the FECs fleet, of which, six cars (35%) were leased and five (29%) hired.

Purchase and Disposal of Fully-Expensed Cars

All respondents remarked that during the period under review, there were no additional FECs that were purchased, leased or hired.

Retiring officers entitled to a FEC have the option to purchase the car on their retirement. The Purchase Price is set according to MFC Circular No. 15/97. All respondents declared that none of their FECs was sold to retiring officers during the period from January to November 2010.

Lack of Ministerial Control over Fully-Expensed Cars of Extra Budgetary Units

Subsequent to replies received from six EBUs that none of their officers made use of FECs during the period under review, NAO requested MFEI to confirm whether such statements were correct in five[2] out of the six cases. FPMD replied that FMS is the only system that

[1] Fifty-seven officers made use of 56 Fully-Expensed Cars, with one of these cars being shared between two officers of an Extra Budgetary Unit.
[2] The remaining Extra Budgetary Unit, this being WasteServ Malta Ltd, uses the Fleet Management System.

can provide access to transactions relating to individual vehicles. Since to date FMS is not installed amongst all of these entities, FPMD could not confirm the existence or otherwise, of officers within these EBUs who were entitled to and made use of any FEC. This is indicative of minimal ministerial control over the use of FECs by EBUs, which may lead to non-compliance with existing regulations, in particular with MFC Circular No. 5/98. It emerged that FPMD is planning to extend FMS across the Public Sector, following the consolidation of this system amongst Ministries and Departments.

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 FECs. 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:

Category	*Max Retail Price*	*Max Engine Capacity(cc)*
Chairpersons	€23,294	1800
Director General/ Chief Executive Officers	€19,800	1600
Director	€16,306	1600

Managers and other officials entitled to a FEC, whose classification is not listed above, was interpreted to be classified under the category of Director, as clearly indicated in FMMU/Veh/C2/05 issued by the former Financial Management Monitoring Unit (FMMU), stating that *"... Category (f) 'Director' should apply to all those in a managerial post that are entitled under contractual obligations to the use of a car;"*.

The Circular stipulates that *"The above prices are notional being inclusive of all taxes/duties"* and *"The quoted retail price of the car 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 as against repair costs.

Officers entitled to a FEC are also subject to stipulated maximum fuel consumption. Chairpersons are entitled to 175 litres and other officers within EBUs enjoy 150 litres per month. 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.

Section 8.2.6.1 of PSMC regulates Traffic Fines incurred from the use of FECs. PSMC requires Heads of Department not to bear the cost of any traffic fines incurred by officials making use of FECs, unless there are exceptional circumstances which justify the traffic infringement.

Missing Information on the Retail Price of Fully-Expensed Cars

Out of the 11 respondents[3], MTA failed to provide the RP for its six FECs, representing 11% of the FECs fleet. Consequently, it was not possible to ascertain whether the relative vehicles were leased in accordance with MFC Circular No. 5/98, as further stipulated in FMMU/Veh/C2/05 issued by FMMU. 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 limits being exceeded, going by unnoticed.

Maximum Retail Price and/or Engine Capacity of Fully-Expensed Cars exceeding Limit

From information forwarded by respondents, the RP of 11 FECs exceeded the allowed limit as established by MFC Circular No. 5/98. This represented 22% out of 50 cars, the RP of which was given by respondents. The excess amount ranged from €151 to €38,435 with two cars exceeding the limit by an amount not exceeding €1,000, one of which was hired. Seven vehicles exceeded the limit by an amount between €1,001 and €5,000, three of which were hired and one was leased. The limit was exceeded by an amount between €5,001 and €7,000 in one other case, while another car which was leased exceeded the limit by €38,435.

In 10 cases, representing 18% of 56 FECs with ENC provided, the ENC of such vehicles exceeded that allowed, in breach of MFC Circular No. 5/98. Five of these FECs were hired and two leased.

Eight out of the 11 respondents reported excesses in RP and/or ENC, representing 73% of respondents. Seven EBUs had one or more FEC that exceeded the RP limit, while five EBUs had one or more vehicles that exceeded the ENC limit. *Table 2 portrays the stated shortfalls by EBUs.*

Allowable Fuel Limits exceeded

The fuel allowance limit as stipulated in MFC Circular No. 5/98 was exceeded in 13 cases, representing 23% out

[3] From the total population of 17 Extra Budgetary Units selected for this case study, six respondents stated that none of their officers made use of a Fully-Expensed Car. Refer to Audit Scope and Methodology on page 269 of this report.

of 56 FECs. Four cars (7%) exceeded the fuel limit once during the period under review, while another four (7%) exceeded the fuel limit in more than two occasions but in less than five times. A further five FECs (9%) exceeded the limit on more than five occasions. The fuel allowance limit was exceeded in aggregate by 1,646 litres. In none of the 13 cases was appropriate covering authority obtained covering the excess.

Six FECs pertaining to MEPA, exceeded the limit by a total of 1,108 litres. The reason provided by MEPA for these cases was that *"In the case of fully-expensed cars assigned to an officer due to the nature of his employment, the car is considered as a general use car for the purposes of FMS, and hence the monthly maximum allowance of 150 litres is waived."*

In fact five out of these six FECs, are classified as GU in FMS[4]. On the other hand, the MEPA officer whose car is appropriately classified as a FEC in FMS, made use of a GU vehicle during the period under review. Two officials at FfMS exceeded the fuel allowance limit by a total of 443 litres, with no explanation being provided for such excess.

Non-compliance with the relative Circular may lead to an eventual unauthorised increase in fuel consumption expenditure over that allowed. If a FEC is classified as GU in FMS, the fuel limit which is set for FECs in such system, may well be exceeded as noted for the cases referred to above. *The number of FECs, by EBU, that exceeded the fuel limit during the period January to November 2010, together with the number of times and litres such limit was exceeded, is shown in Table 3*.

Taxable Fringe Benefits

For tax purposes, FECs are considered as payments in kind, such that the beneficiary is taxed for this benefit. Tax on fringe benefits should be withheld at source in accordance with the provisions of the Final Settlement System Rules.

Taxable FBs are regulated by Subsidiary Legislation 123.55: Fringe Benefits Rules issued on 1st January 2001. A Fringe Benefits Tax Guide was subsequently issued to assist providers of FBs to value the benefits given to employees, associated holders or office holders and provides an explanation of the related obligations. 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."*

Taxable Fringe Benefits Control Shortfalls

The following shortfalls emerged from information provided by respondents to the Questionnaires:

- With the exception of one, all respondents replied that all officers entitled to a FEC are being taxed as per FBs rules. HM confirmed that FBs tax for its only FEC was not being deducted in accordance with FBs rules and will be accounted for in arrears as from next payroll.

- FBs of six leased FECs pertaining to MTA and representing 11% of the 56 FECs fleet, could not be verified due to undisclosed RP. However, FBs were duly calculated by MTA on the maximum RP allowed for a purchase of a FEC by a Director.

- The taxable FB of one FEC was incorrectly calculated by Malta Council for Culture and the Arts, leading to an inflated value of €836.

The lack of proper record keeping gives rise to taxable FB being either erroneously computed or not taken into account. Consequently, this increases the risk of EBUs and the officials enjoying the use of a FEC, to be in breach of Taxable FBs Regulations.

Leased/Hired Fully-Expensed Cars

Officials entitled to a FEC may be benefiting of a leased or hired car depending on EBU's option to lease or hire the car instead of purchasing it. The same conditions applicable to purchased FECs apply. Car leasing and/or hiring are 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 FECs, appropriate Ministerial approval through the FPMD must be sought before an EBU obtains the use of any car through leasing or hiring.

Missing Information on Leased Cars

The date and duration of the lease contracts of five (63%) out of an aggregate of eight leased FECs were not provided.

[4] Fourteen out of 35 Fully-Expensed Cars pertaining to Malta Environment and Planning Authority are classified as General Use in the Fleet Management System. It is to be noted that Fringe Benefit Tax is being deducted accordingly on these vehicles.

All these five FECs pertained to MTA. In addition, MTA failed to provide the RPs of all its six leased FECs, such that NAO could not verify whether FECs rules were being adhered to. The lack of information on essential criteria relating to leased FECs may weaken the internal control system and jeopardise Management's control over this type of expenditure. As a consequence, this might give rise to leasing limits being exceeded.

Lack of Approval for the Leasing/Hiring of Fully-Expensed Cars

All eight leased FECs were not covered with the relative approval of the FPMD or from the former FMMU. MTA with six leased vehicles, commented that such approval was not required at the time when the tender for leasing of these vehicles was issued in the Government Gazette of 2 December 2005. In fact, MF Circular No. 4/2005 was issued on the 19 December of the same year. The remaining two leased cars pertaining to FfMS, were also not covered by the appropriate authority. MEPA with a fleet of 35 hired FECs, remarked that they have been making use of hired vehicles before the issue of the relative Circular in 2005. They further added that since then, no additional vehicles have been hired by MEPA and the same number of vehicles has been retained. Failure to seek the prior approval of FPMD to lease and/or hire FECs is in breach of Government policy. This practice hampers Government's initiative to control this type of expenditure.

Recommendations

Lack of Ministerial Control over Fully-Expensed Cars of Extra Budgetary Units

FPMD must intensify its effort to ensure that it has the necessary systems in place that enable MFEI to execute proper means of control over the use of FECs by EBUs. Moreover, the process of implementing FMS across EBUs must be addressed without undue delay.

Missing Information on the Retail Price of Fully-Expensed Cars

Adequate control systems should be implemented to ensure that the RP, for all purchased, leased or hired FECs, is invariably 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, leasing or hiring process of FECs. The officer-in-charge has to ensure that the necessary documents are provided, before approving the purchase, lease or hire of a new car. The documents should include all information concerning the value of the car, together with specifications indicating the ENC and engine fuel type. This should prevent the financial and ENC limits from being exceeded.

Allowable Fuel Limits exceeded

EBUs must ensure that the fuel allowance as stipulated in MFC Circular No. 5/98 is not exceeded, unless specifically covered by appropriate approval. FPMD should ensure that cars which are considered as fringe benefits, are categorised as FECs in FMS and not as GU.

Taxable Fringe Benefits Control Shortfalls

Each EBU should implement the necessary controls to maintain proper record keeping with details of all FECs, whether purchased, leased or hired, and the officers entitled thereto. The records should clearly state the RP, ENC and year of purchase of each FEC. Through proper record keeping, EBUs would be in a better position to correctly compute the taxable FBs of all FECs according to FBs regulations.

Where missing or conflicting information exists, the EBU should strive to retrieve the most reliable data in order to base the taxable FB on the most available correct information.

Missing Information on Leased Cars

Adequate control systems should be implemented to ensure that all details, related to each and every leased FEC, are properly recorded. This measure would reduce the risks associated with non-compliance to existing regulations.

Lack of Approval for the Leasing/Hiring of Fully-Expensed Cars

Officers-in-charge within every EBU must ensure that adequate authorisation from FPMD is sought prior to entering into lease and hire agreements of FECs. Every EBU should seek the appropriate approval of FPMD for those FECs that are presently on lease and hire before renewing the lease or hire contract.

Stricter controls on the leasing and hiring of FECs should be employed by FPMD, possibly with the implementation of FMS across all EBUs.

Management Comments

Management accepted the findings highlighted in the report and recognised that stricter controls are required to ensure compliance with related policies. MFEI also stated that it is committed to address the reported shortcomings to ensure a greater level of efficiency. As communicated by MFEI, the Ministry will be undertaking a number of measures to ensure that such objective is achieved:

- Stricter controls to be implemented at central level. Action will be taken to introduce the adoption of FMS across the Public Sector within the least possible time.
- Current action is being undertaken to review MFC Circular No. 5/98 with a view to consolidate the regulatory framework related to the provision of FECs to top management. The policy will streamline the procurement of FECs in line with green procurement, leasing (where economically feasible), set carbon emissions and congestion limits, and set upkeep and authorisation procedures for the provision of FECs to top managerial positions, including EBUs.
- Action is currently being taken to specifically regulate the leasing/hiring of vehicles by Ministries, Departments and EBUs. It will be ascertained that all long term hire and leasing will be authorised by MFEI with adequate records to be kept in FMS.
- It is the responsibility of EBUs to ensure adherence with the respective procedures and regulations. EBUs which were held to be in breach of the respective policies and procedures will be asked to justify such diversion from policy and to take remedial action as necessary.

MFEI highlighted other specific measures of controls that will be undertaken to address shortfalls as specified in the report.

Description of the Fully-Expensed Cars Fleet

Action is being taken by MFEI to confirm that FECs that are leased and hired were authorised, by requesting the respective EBUs to justify the lease/hire accordingly and to take remedial action, as necessary.

Missing Information on the Retail Price of Fully-Expensed Cars

Action is also being taken by MFEI to confirm the RP of MTA's FECs and that the Authority maintains adequate control systems as recommended in this report.

Maximum Retail Price and/or Engine Capacity of Fully-Expensed Cars exceeding Limit

MFEI will confirm FECs' RP and ENC of EBUs in question. These EBUs will also be requested to confirm measures in place to control the purchasing, leasing and hiring of FECs.

Allowable Fuel Limits exceeded

Management noted that FMS ensures that consumption of fuel complies with the established limits. Therefore, the implementation of this system amongst EBUs should bring about an improvement in compliance. The reviewed policy on the provision of FECs will specifically regulate that any variation from policy needs to be sanctioned by MFEI. Furthermore, action will be taken by MFEI to draw the attention of the reported EBUs to record correctly the vehicles as FECs in FMS.

Lack of Approval for the Leasing/Hiring of Fully-Expensed Cars

MFEI pointed out that by virtue of a Ministry of Finance letter dated 29 November 2004 addressed to Chief Executives, EBUs were instructed to seek the approval of the Ministry in order to buy, lease, rent or otherwise obtain the use of any additional car. In view of this letter, action will be taken by MFEI with the reported EBUs to justify the lease and hire of such vehicles and to take any necessary remedial action.

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 10/2000	27/12/2000	Taxation of Fringe Benefits Receivable by Public Officers
Subsidiary Legislation 123.55*	01/01/2001	Fringe Benefits Rules
MF 346/97/3	05/09/2001	Purchase and Use of Official Cars
FMMU/Veh/C2/05	25/02/2005	Purchase/Leasing of Cars
MF 4/2005	19/12/2005	Purchase/Lease of Motor Vehicles

*A document entitled *"Fringe Benefits - A Tax Guide for the Valuation of payments in kind"* was issued by the Inland Revenue Department in January 2001. This booklet explains the tax law relating to fringe benefits, their valuation and related obligations.

Table 2 - Number of Fully-Expensed Cars where Retail Price and Engine Capacity was exceeded by Extra Budgetary Unit

Extra Budgetary Unit	Retail Price limit exceeded					Engine Capacity limit exceeded
	Total	<€1,001	>€1,000 - <€5,001	>€5,000 - <€7,001	>€7,000	
Housing Authority	1	1	0	0	0	0
Employment and Training Corporation	1	0	1	0	0	0
Malta Science of Arts, Science and Technology	1	0	1	0	0	0
Malta Council for Culture and the Arts	1	0	1	0	0	1
Mount Carmel Hospital	1	0	0	1	0	1
Foundation for Medical Services	2	0	1	0	1	2
The Rehabilitation Hospital Karin Grech (Zammit Clapp Hospital)	0	0	0	0	0	1
Malta Environment and Planning Authority	4	1	3	0	0	5
TOTAL	**11**	**2**	**7**	**1**	**1**	**10**

Table 3 – Fully-Expensed Cars exceeding Fuel Limit by Extra Budgetary Unit

Extra Budgetary Unit	Exceeding Fuel Limit once	Exceeding Fuel Limit between two and five occasions	Exceeding Fuel Limit more than five occasions	Total litres exceeded
Housing Authority	1	0	0	11
Employment and Training Corporation	1	0	0	7
Malta College of Arts, Science and Technology	1	0	0	7
Malta Council for Culture and the Arts	0	1	0	55
Mount Carmel Hospital	0	1	0	15
Foundation for Medical Services	0	1	1	443
Malta Environment and Planning Authority	1	1	4	1,108
TOTAL	**4**	**4**	**5**	**1,646**

Travel Abroad on Official Government Business within selected Ministries/Departments and Extra Budgetary Units

Background

Travel abroad on official Government business includes all costs which relate to travel conducted on behalf of Government such as participation in international meetings, seminars and conferences. The latter include also congresses, meetings of experts and symposia organised by international or national organisations. Over the years, a substantial number of Government Circulars containing Rules and Regulations with respect to official travel were issued, the majority of which were codified in Section 8 of the Fifth Edition of the Public Service Management Code (PSMC) dated December 2004.

In a previous report by the Auditor General entitled 'Travel Abroad on Official Government Business – Financial Year 2004,' the National Audit Office (NAO) highlighted numerous related concerns across the Public Service. As a reaction to findings and recommendations put forward in this report, the Ministry of Finance issued MFIN Circular No. 1/2008 with a view to steamlining regulations and procedures and *"... addressing a number of issues that have been raised in successive audits performed by the National Audit Office."* This was further enhanced by means of changes to the relevant provisions regulating travel abroad in the 10th Edition of PMSC dated 23 October 2009. Such changes, in particular the introduction of Section 8.9.1.12, brought about the applicability of relevant provisions regulating Travel Abroad to Extra Budgetary Units (EBUs) and other Government Entities. This clearly states: *"Extra Budgetary Units (EBUs) and other Government Entities should also adhere to the prevailing travel rules and regulations. Any reference to the Permanent Secretary in such rules and regulations should be taken to mean the Chief Executive of EBUs and Government Entities."*

Audit Scope and Methodology

The scope of this audit was to determine the degree of compliance of Ministries/Departments (M/D) and selected EBUs with existing Rules and Regulations governing official travel abroad as laid out in Section 8 of PSMC – 10th Edition. Reported findings and recommendations are intended to assist top management with the accounting and monitoring aspects of public funds utilised for travel abroad on official duties.

Following a request to the Ministry of Finance, the Economy and Investment (MFEI), a list of EBUs as at 30 September 2010, comprising 46 EBUs, was obtained from the National Statistics Office. To meet the scope of the audit, NAO adopted a case study approach in which eight (17%) EBUs were randomly selected, consisting of the National Statistics Office, Malta Environment and Planning Authority, Malta Communications Authority, WasteServ Malta Ltd, Malta Tourism Authority, Foundation for Medical Services, *Kunsill Malti Għall-Isport,* and University of Malta (UoM). The selected EBUs were requested to forward a breakdown of all travel abroad visits falling within the audit sample for the period January to October 2010, from which five visits from each EBU were selected, totalling 38[1] visits abroad.

A detailed breakdown of travel abroad visits by M/D for the period under review was obtained from the Treasury Department. Additionally, a case study of five visits

[1] During the compilation of documentation from the Malta Communications Authority, it resulted that a selected visit for testing had been cancelled. On the other hand, all four official visits carried out by the Foundation for Medical Services during the period under review were tested.

from each of the nine Ministries was randomly chosen, amounting to 44[2] official visits abroad.

In order to meet the scope of this assignment numerous general and specific documents were requested from M/D and EBUs for each selected visit. NAO compiled data analysis spreadsheets to verify the correctness and completeness of submitted documentation. Such spreadsheets featured the relevant provisions of the PSMC, accompanied with corresponding analysis of the observance or otherwise of such provisions, for the selected visits.

NAO requested travel statements and supporting documentation pertaining to five visits abroad by officers at UoM[3], being the same procedure applied to other EBUs selected. In a communication to NAO dated 19 January 2011, UoM insisted that such documentation could not be provided on the basis that UoM *"... is not subject to the Rules and Regulations Governing Travel Abroad issued by the Management and Personnel Office of the Public Service Commission."* It was also remarked, that it is the prerogative of the UoM to issue its own Travel Policy in accordance with Article 72(f) of Chapter 327 of the Laws of Malta (the Education Act), which empowers the University Council, as the supreme governing body, to approve such Travel Rules and Regulations. UoM also stated that, as a consequence, any audit the NAO wished to conduct had to be carried out in the context and within the parameters of the UoM's own Travel Policy, forming part of its *Manual of Conduct and Procedures*.

During a meeting between NAO and UoM officials held on 24 March 2011, UoM sustained its position and stated that it shall take up the matter with MFEI and the Office of the Prime Minister (OPM).

NAO reiterated that UoM benefits from public funds and, in so far as the management and utilisation of public resources is concerned, it is thus subject to the Rules and Regulations governing Travel Abroad as clearly detailed in the 10th Edition of the PSMC. Moreover, Section 8.9.1.12 of the same PSMC stipulates that EBUs should also adhere to the prevailing travel Rules and Regulations. The PSMC was further enforced through the issue of MFEI Circular No. 12/2010 - 'Travel on Official Duty' in which the MFEI Permanent Secretary stated that: *"I reaffirm that these regulations apply across all public administration, including Ministries, Departments, Authorities, Commissions, etc. and Government owned companies."*

Subsequently, a second meeting was held on 5 May 2011 between NAO and UoM. During this meeting, NAO once again opined that UoM is to comply with the travel rules as clearly stated in Section 8.9.1.12 of the PSMC, since MFEI recognises UoM as an EBU. Finally, it was agreed between both parties that NAO submits an additional request for the related travel documentation required for testing and that UoM will submit all requested information. Such request was carried out on 9 May 2011 with an extended deadline of 13 May 2011. Documents were duly forwarded to NAO on 17 May 2011.

Control Issue

Inconsistency in Regulations Governing Travel Abroad

"In case of an early departure from Malta which is followed by a late arrival on return, an additional 20% of the per diem daily allowance is allocated, covering an additional meal and half of the allocation for sundry expenses." (PSMC 10th Edition Section 8.6.2.2)

It was noted that the additional 20% per diem daily allowance does not agree with the rate as quoted in Section 3.17 (viii) of the 'Manual on Allowances Payable to Public Officers' issued by the Management and Personnel Office in October 2009 stating that: *"... and additional portion of the per diem allowance in respect of extra meal/s taken on the last day due to a late arrival in Malta may be allowed……Thus an additional 15% of the per diem allowance (i.e. equivalent to an extra meal) is allowed…."* This inconsistency between the PSMC and the Manual could misguide M/D and EBUs as to the proper additional rate to apply in this specific case.

Compliance Issues

Details of Tangible Benefits not provided

Ten out of 44 official visits of M/D (23%), and seven out of 38 (18%) official visits carried out by EBU officials, did not submit details of tangible benefits which were expected to be achieved from the visit, as requested in Section 8.9.1.1(b) of the PSMC. Failure to produce these details may hinder the justification of the visit, which has to be approved by the Permanent Secretary/Chief Executive, as required in Section 8.5.1.3 of the PSMC.

2 When compiling information from the Office of the Prime Minister, it emerged that a related visit had been cancelled.
3 This being one of the selected EBUs forming part of the official list provided by the National Statistics Office.

Tentative Programmes not prepared

Heads of Department/EBUs within six Ministries and four EBUs did not provide the tentative programme that should have been prepared at the beginning of the year as required by Section 8.5.1.2 of the PSMC, thereby hindering adequate planning.

Bi-monthly Progress Report not drawn up

A detailed progress report, drawn up on a bi-monthly basis, listing all outstanding and processed travel advances, including those unsettled advances that have yet to be forwarded to the Treasury, is to be submitted by Accounting Officers to their respective Heads of Department/Directors Corporate Services. (PSMC 10th Edition Section 8.10.1.8)

Heads of Department within five Ministries did not submit the required report. Likewise, six EBUs did not forward the progress report. This may lead to lack of effective controls aimed to identify any outstanding travel advances.

Alternative Travel Arrangements not covered by Quotations

When it is not possible for Air Malta to make the necessary air travel arrangements or it is not economically feasible, alternative air travel is permissible. Air travel shall only be authorised on the presentation of three other quotations, one of which must always be from Air Malta. (PSMC 10th Edition Section 8.7.1.4)

The required quotations were not obtained for four (9%) Ministerial/Departmental visits and another eight visits (21%) by EBU officials, even though the officers concerned did not travel by Air Malta. Unless the services of Air Malta are utilised as much as possible, the special discounts applicable to officers travelling abroad may not be availed of by Ministries/Departments and EBUs.

GA27 Forms not raised

GA27 forms were not raised with respect to 33 EBU visits, representing 87% of tested visits pertaining to seven EBUs. Out of these, 23 visits were covered by a tailor-made template instead of the proper GA27 form, which may result in lack of proper authorisations, together with no audit trail of the expenses incurred, for official travel. On the other hand, NAO favourably noted that all M/D complied.

Inadequate Signatures of Authorisation on the GA27

Section 8.9.1.1 of the PSMC requires that all Permanent Secretaries' signatures authorising visits on the GA27 form, are to be accompanied by a rubber stamp or full name written in block letters.

The following table depicts those instances, on the GA27 forms, where the rubber stamps/names in full were missing:

Signatures to be endorsed by a rubber stamp/name in full on GA27	Number of Visits	PSMC - Section Number
Visit approved by the Permanent Secretary	33 (75%)	Section 8.9.1.1
Expenses of visit certified by Permanent Secretary. *	40 (91%)	Section 8.9.1.1

* It was also noted that the Permanent Secretary's signature was not available on the certification of the expenses of 10 visits on Section B of the GA27 form.

It was also observed that other signatures on the GA27 form were also not clearly identifiable due to missing rubber stamps/names in full, as depicted in the table hereunder.

Failure to adequately endorse authorisation signatures may give rise to non-approved visits, or visits being approved by non-authorised officers.

Signatures to be endorsed by a rubber stamp/name in full on GA27	Number of Visits	PSMC - Section Number
Request for authorisation of the visit by the Head of Department to the Permanent Secretary.	26 (59%)	Section 8.5.1.3
Declaration by officer travelling abroad whether he is in receipt or otherwise of compensation in kind/disbursement for accommodation/meals, transport, air tickets and subsistence from the host body.	28 (64%)	Section 8.9.1.6
Head/Director Corporate Services has to confirm that officers proceeding abroad have no pending visits dating back more than one month.	31 (70%)	Section 8.9.1.3

Subsistence Allowance incorrectly claimed

The following irregularities were noted:

a) An officer from the Ministry for Health, the Elderly and Community Care claimed an extra 15%[4] subsistence allowance for an additional dinner due to late arrival. From the documents submitted to NAO, this extra subsistence allowance could not be verified.

b) No documentation was available to verify the following subsistence allowance claimed by two officers from the Customs Department relating to one visit:
- A half day extra subsistence allowance;
- €26 deducted in respect of breakfast; and
- the rate of subsistence allowance quoted by Customs Department did not correspond with the official *per diem* rates.

c) A welcome dinner in connection with a visit by a Ministry of Foreign Affairs official was not deducted from the subsistence allowance.

d) There were two instances where the same Senior Environment Protection officer at Malta Environment and Planning Authority claimed a different subsistence allowance being Class A and Class B for two separate visits.

e) The subsistence allowance provided to officers relating to the four visits tested pertaining to Malta Communications Authority, was incorrectly calculated.

f) Fifteen percent, equivalent to one dinner provided for free, was not deducted from the subsistence allowance relative to a visit attended by an official from WasteServ Malta Ltd.

g) It was noted that *Kunsill Malti Għall-Isport* reimbursed the actual expenditure on presentation of the receipts to officers travelling abroad following their return. Therefore, no subsistence allowance was given to officers prior to the visit in accordance with Section 8.6.2 of the PSMC. It resulted that the officers who travelled abroad in connection with three visits were underpaid by €289.18.

The absence of effective controls in compiling the subsistence allowance may result in inaccurate subsistence allowance claimed by officers travelling abroad.

Official Programme of the Visit not provided

The official programme/agenda of eight out of 44 (18%) Ministerial/Departmental visits and seven out of 38 EBU visits (18%) were not attached with the documents forwarded to NAO. Thus, it was impossible to check whether any hotel accommodation, meals, transport and subsistence have been provided by the host organisation.

Unsigned GA27 Forms in respect of Advanced Money

Section C of the GA27/GA27A is to be endorsed by the delegate as proof of receipt of funds. (PSMC 10th Edition Section 8.9.1.9(d))

Out of 44 travel visits tested, 24 Ministerial/Departmental officers, representing 55% of visits tested, did not sign Section C of the GA27 form on receiving the advance money. This may give rise to the risk that any issues that might arise regarding advanced money, cannot be verified by the M/D.

Unsupported Refunds Claimed from Contingency Money

Contingency money may be advanced to travelling officers largely to cover expenses related to airport/hotel transfers and local transportation to and from the airport. (PMSC 10th Edition Section 8.6.2.2)

Officers of two Ministerial delegations were collectively reimbursed €146.35 for taxis and other contingencies, even though expenses claimed were not receipted.

Travel Insurance Returns not submitted

Travel insurance coverage is provided by the chosen insurance company for officers proceeding abroad on short-term duty visits. (PSMC 10th Edition Section 8.6.5.1)

In addition, Section 8.6.5.2 of same requires Departments to submit monthly returns (including Nil returns) to the chosen Insurance Company, showing the number of duty visits abroad, on the declaration forms supplied by the Company.

a) It was noted that three M/D did not submit the insurance declaration return portraying eleven (25%) out of 44 visits tested.

b) The following irregularities were noted in respect

[4] As quoted in the 'Manual on Allowances Payable to Public Officers' dated 23 October 2009, and not as stated in the Public Service Management Code at 20%.

of EBU visits:
- Four out of seven EBUs did not submit the required return in respect of 19 official visits (50%).
- Twelve (32%) official visits by EBU officers were not insured with the chosen insurance company as required by the PSMC, resulting in a more expensive insurance cover than being paid by EBUs.
- No travel insurance cover was raised for five visits pertaining to *Kunsill Malti Għall-Isport*. This EBU stated that the travel insurance policy was raised on personal individual travel insurance.

c) NAO noticed that M/D were utilising the services of the same insurance company, whereas some EBUs were using different insurance companies. Upon enquiry with MFEI to confirm the chosen insurance company as referred to in the PSMC, MFEI replied that the last related OPM Circulars date back to 1983 and 1980 respectively, these being OPM Circular No. 69/83 and OPM Circular No. 4/80. Upon further enquiry, OPM stated that: *"...... no Circular related to the Open Travel Insurance was issued by this Office."*

This lack of consistency may lead to additional expenses being incurred.

Statement of Expenses not provided

Five Ministerial/Departmental visits representing 11% and 31 EBU visits equivalent to 82% of selected visits were not covered by a Statement of Expenses as indicated in the GA27B form in accordance with PSMC Section 8.10.1.4.

From the 31 EBU visits noted above, 18 EBU visits pertaining to four EBUs were covered by a tailor-made template instead of the proper GA27B form.

Besides having advance money remaining unaccounted for, this would increase the risk that M/D and EBUs end up with a backlog of outstanding travel funds.

Non-Submission of Report following Visits Abroad

A report on the visit is to be submitted by not later than 1 month after the visit. (PSMC 10th Edition Section 8.10.1.1).

The reports of 22 (50%) Ministerial/Departmental visits and 11 (29%) EBU visits were not provided with the travel documents forwarded to NAO. Given that the PSMC does not give details on the purpose, contents and recipient of the report which is currently required to be submitted, there could be the risk that either officers would not be aware of what to include in such reports or else reports submitted would not be of a uniform format.

Post Travel Submission Form not provided

Section 8.10.1.6 of PSMC requires accounting officers responsible for travel to submit a Post Travel Submission Form to the Bank Transactions Unit of the Treasury Department by not later than two months from the date of the visit abroad.

The following shortcomings were noted:

a) The Post Travel Submission Forms in respect of six Ministerial/Departmental visits, representing 14% of visits tested, were not attached with the travel documents forwarded to NAO.

b) The date of submission pertaining to nine (24%) Ministerial/Departmental visits out of 38[5] exceeded the allowed two months period.

c) All EBUs did not submit the Post Travel Submission Form.

Failure to submit this form might imply that the officers travelling abroad did not account for the advance made to them, and that the GA27 and GA27A forms have not been satisfactorily completed.

Recommendations

Control Issue

Inconsistency in Regulations Governing Travel Abroad

It is recommended that inconsistency relating to *per diem* allowance be rectified with immediate effect.

Compliance Issues

Details of Tangible Benefits not provided

All information requested by the PSMC should be duly prepared and presented for approval of the respective Permanent Secretary/Chief Executive, or his delegated

[5] This represents the total 44 Ministerial/Departmental visits tested less the six visits whose Post Travel Submission forms were not submitted.

representative in case of unavailability, after correctness of such declarations have been confirmed by Heads of Department/EBUs.

Tentative Programmes not prepared

Permanent Secretaries/Chief Executives are to request their Heads of Department/EBUs to prepare a programme of duty visits abroad at the beginning of each year with a contingency for unforseen visits. The extent of the programme should be linked to the funds actually available to the Department/EBU for duty travel overseas. Such programmes would provide the Permanent Secretary/ Chairman with the basis on which to approve request for official travelling.

Bi-monthly Progress Report not drawn up

Bi-monthly reports should be prepared regularly. Such progress report is to assist Heads of Department/EBUs to identify and control any officers with pending statements of expenses in connection with any advances received relating to visits abroad, prior to approving same officers' with other visits abroad.

Alternative Travel Arrangements not covered by Quotations

As required by the relative provisions of the PSMC, whenever the services of Air Malta are not used for some valid reason, alternative air travel arrangements should only be authorised on the presentation of the necessary quotes.

GA27 Forms not raised

It must be ensured that EBUs adopt full use of the GA27 form in accordance with Section 8.9.1.12 of the PSMC and MFEI Circular No. 12/2010.

Inadequate Signatures of Authorisation on the GA27

M/D should insist that all signatures on the GA27 forms are supported with the full name or a rubber stamp.

Subsistence Allowance incorrectly claimed

M/D and EBUs should ensure that any overpayments to officers are collected. In addition, the PSMC and the *per diem* rates issued by MFEI should invariably be adhered to. The Accounting Officers should ensure that any free lunches and dinners provided by the host organisers are appropriately deducted from the subsistence allowance provided to officers travelling abroad.

Official Programme of the Visit not provided

M/D and EBUs should invariably request the official literature relating to the visit which may include the conditions and any amenities available, such as free accommodation and/or free meals, as may be offered by the hosting organisation. If the agenda/programme of the visit is not available, the officer travelling abroad is to certify this in writing, as required in PSMC 8.9.1.8.

Unsigned GA27 Forms in respect of Advanced Money

Accounting officers should not process, and are to withhold blank or incomplete GA27 forms, as instructed by Section 8.9.1.8 of PSMC.

Unsupported Refunds Claimed from Contingency Money

All claims for expenses such as transport, lunches/dinners, and other expenses incurred during the visits, are to be daily receipted and justified.

Travel Insurance Returns not submitted

It is recommended that MFEI instructs EBUs to use the insurance company that is chosen by Government for officers travelling abroad on official business. Prevailing travel Rules and Regulations should be updated to incorporate the official insurer chosen by Government.

Statement of Expenses not provided

According to PSMC Section 8.10.1.4, a Statement of Expenses is to be drawn up and presented for vetting and approval on the GA27B form. Members of Ministerial delegations are also required to fill in GA27B. PSMC Section 8.10.1.1 further stipulates that: *"Officials travelling abroad who do not account for the advance made to them within one month from their return, by way of submitting the necessary forms and statement of expenses, should not be issued with a new advance before they comply."*

Non-Submission of Report following Visits Abroad

As previously recommended in NAO's report on Travel for the Financial Year 2004, the PSMC should be amended accordingly in order to give more details regarding the purpose and expected contents of the report, which is to be submitted after each visit abroad, by listing possible categories of information which should be included in the report. If necessary, a model report is to be provided in the PSMC. The PSMC should also include clear directives as to whom such report is to be submitted, together with the necessary action to be taken by such officers vis-à-vis defaulters.

Post Travel Submission Form not provided

Accounting officers must ensure that the Post Travel Submission Form is completely filled in and that any missing documentation is brought to the attention of the travelling officers. Such form is to reach Treasury within the specified deadline. Additionally, as is the case for EU related travel, it is highly recommended to request officers to submit boarding passes.

Management Comments

In its comments, Management acknowledged that the report highlighted a number of areas that require stricter controls on the part of M/D and EBUs to ensure compliance with the relative policies outlined in the PSMC. MFEI reiterated that ultimately it is the responsibility of M/D and EBUs to ensure adherence with the respective regulations and policies. In this respect, NAO forwarded to MFEI additional information concerning each finding mentioned in the report, which would allow the Ministry to take appropriate action with the respective M/D and EBUs. Management also stated that the entities concerned would be asked to ensure adherence with the stipulated regulations.

The Ministry also provided the following courses of action that will be undertaken to rectify inconsistencies in regulations governing travel abroad:

Inconsistency in Regulations Governing Travel Abroad

Action is being taken by the Public Administration Human Resources Office (PAHRO) within OPM to amend Section 3.17 (viii) of the 'Manual on Allowances Payable to Public Officers' to bring it in line with Section 8.6.2.3 of the PSMC of the 7 March 2011 issue.

Travel Insurance Returns not submitted

The Ministry confirmed that it could not trace any Circular that obliges all M/D and EBUs to use the services of the same insurance travel agency. Action will be taken to amend the travel regulations so as to clarify that each M/D and EBU is to make its own arrangements for travel insurance.

Non-Submission of Report following Visits Abroad

MFEI has followed NAO's recommendation and is consulting with PAHRO in this regard. It is envisaged that the PSMC will be amended accordingly by specifying the contents and purpose of such a report that is to be submitted after each visit abroad.

Management further expressed its commitment to address the shortcomings mentioned in the report and ensure a greater level of efficiency. As such, it is envisaged that the new updates to the travel regulations mentioned above, will be published in the near future. Besides, all the travel regulations that apply shall be incorporated in one document that would serve as a focus for all those concerned.

Cohesion Policy 2007-2013 European Regional Development Fund Energy Grant Scheme

Background

The European Regional Development Fund (ERDF) Energy Grant Scheme provides grants to enterprises investing in solutions that will help reduce the impact of energy costs on their business.

The Directorate Programme Implementation (Directorate) within the Ministry of Finance, the Economy and Investment (MFEI) is responsible for the management of processing of all related payments pertaining to ERDF Energy Grant Scheme.

The ERDF Energy Grant Scheme, launched in 2008, is administered by Malta Enterprise (ME). The total amount of funds allocated for this Scheme amounts to €15 million, with such incentive being 85% co-funded by the European Union (EU) and the remainder from local funds. Beneficiaries under this Grant Scheme may claim 50% refund on their approved projects, the minimum project value of which must be at least €25,000 and is not to exceed €200,000.

Two calls for applications have been issued by ME during 2009 and the relative grant agreements were also signed during the same year. From the first call, 55 enterprises benefited under this Scheme, with a contracted value of around €3.1m. From the second call, 84 businesses benefited under this incentive and these contracted around €4.8m. The third call was issued in 2010 and, as at 3 May 2011, was still being evaluated by the Technical Evaluation Committee appointed by ME.

Claims for payment by beneficiaries have to be raised after the project has been implemented, following all necessary verifications carried out by ME, including on-the-spot checks. The related documentation is then forwarded to the Directorate in order to prepare the requested refund to the beneficiary.

All information leading to the payment of claims for each beneficiary is recorded in the Structural Funds Database. The Invoice Status Certificate (ISC)[1] is then issued following the successful uploading of the necessary claim documentation. ISC also serves as a checklist for the Intermediate Body, Line Ministry and Treasury for the processing of said claim. It is to be countersigned at every step of the payment process by the Project Leader or Coordinator, the Director Programme Implementation or EU Funds Manager and by EU Payments Officer.

Audit Scope and Methodology

The scope of this audit was to verify that the related funds earmarked for ERDF Energy Grants Scheme were appropriately disbursed out of MFEI Capital Vote VIII Account 7211, in accordance with both the associated conditions laid down in ERDF Incentive Guidelines prepared by ME and the beneficiaries' Grant Agreements. EU and Malta funds budgeted for Financial Year 2010, to be utilised by ME, stood at €6,509,000 and €1,375,000 respectively.

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

[1] The Invoice Status Certificate is issued by the Malta Enterprise (beneficiary), through the Structural Funds Database, as part of the necessary documents that are submitted to the Directorate Programme Implementation on behalf of beneficiaries. 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 Programme Implementation and the Treasury Department respectively before payment is executed.

in relation to ERDF Energy Grants Scheme during 2010. Minutes of meeting were referred back to the officials concerned for their comments.

Nineteen (19) Commitment Vouchers (CV), amounting to €917,615, were recorded under Capital Vote VIII within the Departmental Accounting System under 'Nominal Ledger Transactions Listing' report for the year 2010, representing the 85% share to be financed by EU Commission. The corresponding 19 CV totalling €161,932, consisted of the 15% share to be financed from national public funds. Copies of these CV, together with the related documentation, were obtained for examination. The whole population, consisting of 38 payments, was tested by means of an expenditure checklist compiled to verify the correctness and completeness of the CV. As confirmed by the Directorate, all payments issued to beneficiaries related to the first call of this Scheme.

Compliance Issue

Commitment Voucher relating to another project incorrectly posted under the Energy Grants Scheme

While checking the relative CV against the 'Nominal Ledger Transactions Listing' and the 'Commitment Report by Account', it was noted that a CV collectively amounting to €151,592 did not relate to the Energy Grants Scheme. As confirmed by the Directorate, the payment was misallocated under ERDF Energy Grant Scheme Account instead of being accounted for under ERDF Innovation Actions Grant Scheme Account.

Recommendation

Compliance Issue

Commitment Voucher relating to another project incorrectly posted under the Energy Grants Scheme

Expenditure is to be allocated to the proper project/ account number in order to ensure that the accounts are fairly presented, enabling the proper identification of the cost of the projects. Treasury Department should be informed to issue the relevant Transfer and Adjustment.

Conclusion

The National Audit Office feels it pertinent to point out that no irregularities were encountered following testing:

- of the payments claimed after taking in consideration the Addenda, where applicable, issued after the original Grant Agreements;
- that after all the necessary checks have been carried out by ME, including on-the-spot checks, the related documentation was forwarded to the Directorate;
- that ISC was issued from the Structural Funds Database, following the successful uploading of the necessary claim documentation;
- that ISC was countersigned by the Project Leader or Coordinator, the Director Programme Implementation or EU Funds Manager and by the EU Payments Officer; and
- that payments made to beneficiaries were issued according to the established ratios.

Management Comments

Management concurred with the report and has informed Treasury Department accordingly to carry out the necessary adjustments.

Inland Revenue Department
Analysis of Exemption Order Scheme Phase Two: Reduction in Additional Tax and Interest

Background

Throughout the first phase of the Exemption Order Scheme[1] (EOS) around 31,000 taxpayers regularised their position with the Inland Revenue Department (IRD), leading to the collection of approximately €43 million in tax and penalties. This led to the launching of the second phase of the EOS through Press Release No. 1258 dated 7 July 2010.

The Minister of Finance, the Economy and Investment announced that Phase Two of the Scheme was intended to provide taxpayers who have fallen behind in the payment of their tax balances with the opportunity to regularise their position without incurring the full amount of additional tax and interest to which they may have become subject.

The second phase of this Scheme retained its original intention, namely to:

- encourage the submission of outstanding income tax returns;
- settle tax balances due; and
- offer an opportunity for those who want to adjust their income on a voluntary basis.

In addition to the same conditions stipulated in Phase One of the Scheme, Phase Two:

- offered an alternative method of payment over a longer period of time, depending on the balance due;
- extended the Scheme to employers who had outstanding submissions of FS3 and FS7 documents and outstanding Final Settlement System (FSS) and Social Security Contribution (SSC) Payments in respect of their employees for Basis Years 1998 to 2009; and
- included the Year of Assessment (Y/A) 2009.

Pending Income Tax Balances

Phase Two applied to all taxpayers (individuals and companies) who owed tax up to Y/A 1998 (referred to hereunder as the 'Old' Assessment System (Pre'99)), as well as those who owed balances for Y/A 1999 till 2009 (referred to hereunder as 'New' Self Assessment System (SAS)). In respect of Pre'99, taxpayers could benefit by paying in full 75%[2] of the tax balance due by 31 October 2010. This deadline was later extended by one month to 30 November 2010. However, if taxpayers decided to pay on the basis of an installment plan, the amount to be paid was set at 80% of the total tax due. Thirty per cent of the reduced balance (30% of 80%) had to be paid upfront by 30 November 2010, with the remaining payments to be made over a number of months, as indicated by IRD.

In case of SAS, taxpayers had to pay all tax due and 15% of the penalties by 30 November 2010, in order to be eligible to benefit from a reduction of 85% on additional/omission tax and interest. If taxpayers chose to pay by installments, the reduction in additional taxes and interest was of 75%, commencing with an initial payment of 30% of the reduced total to be paid by not later than 30 November 2010. The balance had to be settled within a given period of months, as indicated by IRD.

[1] Phase One of the Exemption Order Scheme was launched by the Minister of Finance, the Economy and Investment on 4 September 2009.
[2] Since the data collected under the Pre'99 System 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.

In order to benefit from this Scheme, taxpayers had to:

- submit all outstanding Tax Returns for Y/A 1999 to 2009[3] by 31 August 2010 – this date was extended to 30 September 2010;
- pay the amount of tax and (reduced) penalties by the date(s) indicated in the Agreement;
- sign the Agreement according to the option selected and send it back to IRD together with the relative payment; and
- the said Agreement, when signed and submitted:
  - covered all Y/A of Pre'99 and/or all Y/A of SAS, depending on the type of Agreements entered into; and
  - was considered to be a withdrawal by the taxpayer of any pending claims (including Board of Special Commissioners and Court of Appeal cases).

The EOS allowed taxpayers with outstanding balances to apply for Pre'99 and SAS simultaneously, thus allowing the possibility of entering into two different Agreements. Alternatively, taxpayers could opt to apply for one system and not the other.

Pending Final Settlement System and Social Security Contribution Payments

As stated earlier in this report, Phase Two of this Scheme was extended to employers who had pending FSS and SSC payments in respect of their employees for any year from Basis Year 1998 to 2009.

Employers benefited from a 90% reduction in penalties if they paid the remaining 10% of the penalties and the whole amount of FSS and SSC payments due in full by 31 October 2010 (also extended to 30 November 2010). If employers opted to pay on the basis of an installment plan, the reduction in penalties was 80%, with 30% of the reduced total to be paid upfront by not later than 30 November 2010 and the remainder within a given number of months, as indicated by IRD.

In order to benefit from this Scheme, employers had to:

- submit all outstanding end of year employees' Statements of Earnings (FS3 and FS7)[4] for the years 1998 to 2009 by 31 August 2010 – this date was extended to 30 September 2010;
- pay the amounts of FSS and SSC and reduced penalties by the date(s) indicated in the Agreement; and
- sign the Agreement covering all years from 1998 to 2009, according to the option selected and send it back to IRD together with the relative payment.

IRD informed the National Audit Office (NAO) that, commencing October 2010, legal action against defaulting employers was being taken concurrently with the Scheme. Such employers were advised to opt for the Scheme in order to avoid criminal proceedings.

Agreements

IRD issued Notification Letters (NL) stating provisional balances to taxpayers and employers who at the time had a missing tax return and/or FS7. These were followed with the issue of Agreements indicating balances of tax, FSS and/or SSC due. Taxpayers and employers with outstanding balances, but no missing Returns/forms, were issued with Agreements at once.

In Agreements issued by IRD, (following the submission of pending Tax Returns/FS3/FS7) taxpayers and employers were provided with two payment options, except in those cases where reduced balance due by taxpayers/employers was less than €50. Options consisted of:

- Option One – a down payment of the full outstanding amount; and
- Option Two – payment by installment method. The maximum time allowed to settle the end tax balance was 18 months. Extensions beyond this period were considered individually upon taxpayer's request, followed with the issue of a new Agreement, covered with a prior authority at Director level.

All penalties and additional interest, together with reductions therefrom, were quoted in the Agreements sent. Although such penalties/interest occur automatically in IRD IT system, this was not the case for FSS and SSC, at the time when the Scheme was launched in July 2010. In fact, the first part of IRD's efforts were directed towards updating the IT system, thus making it possible for arrear payments of FSS and SSC to primarily offset any penalties due, before offsetting actual balances due of FSS and SSC. Currently, the IT system is automatically calculating penalties relating to FSS and SSC on a monthly basis.

[3] Following the submission of these Returns, Inland Revenue Department was to immediately process the relative tax statements and send to taxpayers a Notification Letter indicating the amount to be settled. This condition was relevant only with respect to SAS, whereas no tax Returns pertaining to Pre'99 were to be submitted. The extension date also applied for the submissions of any Adjustment Forms (AF1 or AF2).

[4] Employers were not obliged to submit any FS5 forms with Agreements made under the Scheme.

Audit Scope and Methodology

An analysis of Phase One of EOS has already been carried out by NAO and accordingly reported upon in the Auditor General's Annual Audit Report, Public Accounts 2009.

Likewise, the scope of this analysis was to examine the implementation process of Phase Two of EOS issued by the Ministry of Finance, the Economy and Investment, with the aim of:

- assessing the management of the Scheme by analysing IRD's selection of those taxpayers/employers who were sent a NL or Agreement with a balance to settle; and
- identifying the amount of tax collected from the Scheme compared to Agreements sent to taxpayers/employers.

An introductory meeting was held with IRD officials on 28 February 2011 to discuss the objectives of the exercise, the Scheme itself and to outline the documentation required for analysis purposes. The minutes of this meeting were referred back to IRD for their comments and final confirmation thereof.

During this meeting, NAO was informed that Phase Two of EOS was still ongoing. Thus, a cut-off date for the Agreements to be analysed was agreed upon by both parties, this being 31 March 2011.

IRD provided NAO with lists of:

- Agreements issued to taxpayers/employers totalling €273,154,971[5] up to 31 March 2011 after Scheme reductions regarding Option One were applied; and alternatively
- Agreements totalling €290,796,414[6] issued to taxpayers/employers up to the cut-off date after Scheme reductions pertaining to Option Two were applied.

Payments received at IRD as at 31 March 2011 amounted to €32,807,576. As at same date, other committed amounts of tax/FSS/SSC due from taxpayers/employers who entered into installment plan Agreements totalled €19,340,458. Those Agreements that were issued to taxpayers following tax audits carried out by IRD or the Tax Compliance Unit, including those issued to employers following cases summoned to Courts, were indicated accordingly.

Data submitted by IRD was used to analyse taxpayers' and employers' participation in EOS up to the established cut-off date.

Key Issues

Exercise on Statute-Barred amounts not yet completed

During the introductory meeting with NAO, IRD confirmed that the general exercise of identifying statute-barred amounts was still not concluded. As was noted for Phase One, a complete analysis of taxpayer population was not yet completed before sending NL or Agreements to taxpayers to participate in Phase Two of the Scheme.[7]

Besides, the status of 1,200 taxpayers who claimed that their amounts due were statute-barred during Phase One of the Scheme is still pending. IRD stated that approximately 700 taxpayers were found to be statute-barred, for which IRD obtained Ministerial approval for write-off dated 1 March 2011, for an aggregate €1.3 million. The write-off approval of some of the remaining 500 taxpayers, whose balance was found to be partly statute-barred, is still pending. All 1,200 taxpayers will be notified of IRD's decision in due course.

During the same meeting, NAO was informed of action being taken by the Department to avoid any potential prescription issues. In fact, during December 2010, IRD issued approximately 14,000 Assessments relating to Basis Years 1999 to 2002. These Assessments were issued to taxpayers who did not submit a Tax Return for that respective year.

Furthermore, Malta Information Technology Agency and IRD have combined efforts to adopt an Early Warning System which aims to highlight those amounts that are due to become statute-barred, with the objective of decreasing such instances. IRD stated that the system is fully implemented and running for Pre '99 balances, with Demand Notices and Judicial letters being issued on a six-monthly basis. In fact, during January and June of this year, the System extracted lists of those balances that were to become prescribed in the following months, leading to timely necessary action taken by the Collection Section.

Incomplete Data re Outstanding Final Settlement System/Social Security Contribution Dues

Although NAO acknowledges that the issue of quantifying FSS and SSC arrears goes beyond the audit

[5] This amount is payable if balances due are settled immediately.
[6] This amount is payable if balances due are settled by installments.
[7] As was done in Phase One of the Scheme, IRD excluded from Phase Two, deceased and inactive taxpayers (depending on the balance), struck off companies and taxpayers with a pending tax balance of two Euros or less, who satisfied a number of parameters and criteria. Due to their confidential nature, these parameters are not being published.

scope, when requested whether IRD can quantify such amounts, IRD commented that information is retrieved only from documents submitted by employees when submitting their Tax Returns. IRD can also quantify the amounts of FSS and SSC in arrears in those cases where FS7 forms are submitted without payment. However, IRD acknowledged that in those cases where the employer fails to submit the FS7 form, FSS and SSC figures derived are incomplete, since not all employees submit their FS3 forms together with their Tax Return.

Scheme not officially extended for the period 30 November 2010 till 4 August 2011

At least up till 28 February 2011, IRD was still accepting Tax Returns, FS5 and FS7 forms, notwithstanding that the established extended deadline of EOS (30 November 2010) had not been again officially extended. As a result, Agreements were still being issued by IRD requesting taxpayers/employers to submit the signed Agreement together with the relative payment within 21 days from the date of such Agreement.

Analysis of Taxpayers' Participation in Phase Two of the Exemption Order Scheme up to 31 March 2011

Following the submission of missing Tax Returns, as requested by IRD by means of the initial NL sent to taxpayers, a total of 42,519 Agreements, representing a total tax payable of €289,182,819 (inclusive of all additional tax, interest and penalties) were sent to taxpayers. This total is inclusive of those Agreements sent to taxpayers with an outstanding balance. *Table 1 shows the Total Tax Payable, including Additional Tax, Interest and Penalties, as per Agreements issued by IRD before Reductions and excluding Estimations*.

Four different types of Agreements were issued:

- Agreements with balances due in respect of Pre'99 only with the option of an installment plan.
- Agreements with balances due in respect of Pre'99 only with no option of an installment plan.
- Agreements with balances due in respect of SAS only with the option of an installment plan.
- That includes balances due in respect of SAS with no option of an installment plan.

Taxpayers also had the possibility of entering into two different Agreements, one for Pre'99 and one for SAS.

Agreements portrayed a total balance outstanding for all years up to Y/A 1998, while separate annual outstanding balances were portrayed for Y/A 1999 to 2009. Taxpayers were given a breakdown of total tax due, penalties and interest, together with the total down payment (where applicable including two different down payment amounts depending on the payment option selected), requested after the computation of the reduction.

The total down payment requested from the aggregate 42,519 Agreements, amounted to €187,499,620 under Option One and alternatively €202,228,500 under Option Two, following a total reduction of €101,683,199 and €86,954,319 respectively, of the aggregate amount due of €289,182,819 as per Agreements sent under both options.

An amount of 10,836 out of the 42,519 Agreements issued, representing 25.5% of Agreements returned compared to Agreements issued, accepted to participate in the Scheme by effecting payment to IRD totalling €24,289,505. In Phase One, approximately 51% of taxpayers who received an Agreement, participated in the Scheme. Of the total payments received, €1,773,447 pertained to Pre'99, while the remaining €22,516,058 were collected from SAS tax balances. A further committed amount of €2,227,742 in respect of Pre'99 balances as well as €26,426,422 in respect of SAS balances is to be collected from taxpayers who opted to enter into Installment Plan Agreements through Option Two. *Table 2 provides a detailed breakdown of signed Agreements returned to IRD and Down Payments received as a percentage of both options, including Committed Amounts following Installment Plan Agreements*.

An amount of €473,525 of down payments received, representing 1.9% of total payments received from taxpayers (€24,289,505), related to 35 cases of taxpayers who during EOS were being audited by the Tax Compliance Unit and decided to participate in the Scheme.

On the other hand, 1.5% or €368,780 of total down payments received pertained to 73 cases of taxpayers who during the Scheme were being audited by IRD and decided to participate in the Scheme. Of these, 70 cases totalling €356,706, related to SAS. *Table 3 relates*.

Analysis of Employers' Participation in Phase Two of the Exemption Order Scheme up to 31 March 2011

Following the submission of outstanding FS3 and FS7 forms, as requested by IRD by means of the initial NL sent to employers, a total of 6,074 Agreements, representing a total FSS/SSC payable of €112,116,454 (including penalties) were sent to employers. Such total was also inclusive of those Agreements sent to employers with an outstanding balance. Two different types of Agreements were issued, depending on whether employers benefited from the option of the installment plan, or not, if FSS/SSC due was less than €50.

Employers' Agreements included a yearly breakdown of total FSS/SSC due, penalties derived therefrom, together with the total down payment requested under both Option One and Option Two after the computation of the reduction.

Total down payments requested from an aggregate of 6,074 Agreements, amounted to €85,655,352 under Option One and alternatively €88,567,914 under Option Two. These represented a total reduction of penalties amounting to €26,461,102 and €23,548,540 respectively, as per Agreements sent. From all Agreements issued to employers, 2,395 (39.4%) accepted to participate in the Scheme by effecting payments to IRD amounting to €8,518,071. A further committed amount of FSS/SSC, totalling €23,493,870, is to be collected from those employers who opted to enter into Installment Plan Agreements through Option Two. This amount represents 9.9% and 9.6% of down payments requested through all Agreements sent under Option One and Option Two respectively. *Table 2 relates*.

An amount of €2,011,192 of FSS/SSC received, representing 23.6% of payments received from employers, related to 101 cases of employers who opted to participate in the Scheme, whilst having all charges in pending Court cases dropped against them. A further committed amount of FSS/SSC totalling €4,705,013 is to be collected from those employers who opted to enter into Installment Plan Agreements through Option Two. *Table 3 refers*.

Recommendations

Key Issues

Exercise on Statute-Barred amounts not yet completed

It is recommended that the Early Warning System, currently implemented in respect of Pre '99 balances, be also adopted for SAS balances. This will ensure that timely action is taken on amounts due prior to being categorised as statute-barred.

Incomplete Data re Outstanding Final Settlement System/Social Security Contribution Dues

For control purposes, IRD, besides identifying defaulting employers, needs also to increase the collectability of FSS and SSC in arrears. Yearly reminders that are sent to employers must be duly followed up to ensure that immediate action is taken against those employers who fail to submit the required documentation and FSS/SSC payments by the established deadline.

Scheme not officially extended for the period 30 November 2010 till 4 August 2011

It is recommended that, if necessary, the deadline of EOS is extended officially before accepting further submissions from taxpayers/employers and before proceeding with the issue of further Agreements.

Management Comments

Management submitted comments in relation to findings mentioned in the report which were extensively discussed during an exit meeting held at NAO on 5 July 2011. The meeting was also attended by officials from the Ministry of Finance, the Economy and Investment (MFEI), whereby both agreed to forward further documentation and explanations.

Exercise on Statute-Barred amounts not yet completed

According to IRD, MFEI verbally directed IRD to issue NL to those taxpayers who received a NL in Phase One, but failed to participate. Besides, this exercise could not be completed due to the huge volume of work in connection with Phase Two notices and concluding issues from Phase One. Management also commented that prescription is not automatic and has to be dealt with on a case-by-case basis.

Incomplete Data re Outstanding Final Settlement System/Social Security Contribution Dues

IRD stated that a parallel means of identifying those employers who fail to submit the FS7 exists, through the integration of information from the Employment and Training Corporation. Management also confirmed that a system exists whereby estimated values of FSS/SSC can be issued together with a Legal Letter. In this regard, as from November 2010, the Department commenced court action against a number of defaulting employers.

Scheme not officially extended for the period 30 November 2010 till 4 August 2011

Management reiterated that the fact that it still awaits MFEI write-off approval for some of the 500 partially prescribed balances constitutes a valid reason for not closing the Scheme. Moreover, IRD stated that it has already concluded an exercise aimed at sending a reminder to taxpayers/employers who have not participated in the Scheme Phase Two, to encourage them to participate. During the exit meeting and subsequently through an email dated 19 July 2011, NAO requested MFEI to provide any explanations as to the reason why EOS was not officially extended. It is to be noted that up to mid-August 2011, NAO has still not been informed by MFEI the reason why EOS was not again officially extended.

In a reply to NAO on 25 July 2011, MFEI stated that the Minister of Finance, the Economy and Investment *"...has approved the extension, the public will be informed in the coming days."* In fact, by the date of this report, IRD had taken measures to inform the general public of the extension of the Scheme through the media and the Government Gazette No. 18,788 dated 5 August 2011. The public is informed that any missing tax returns or FSS documents are to be submitted by 30 September 2011, while they have up to 31 October to request an updated Agreement. The deadline for the payment and submission of the Agreement was extended to 30 November 2011.

Table 1 – Total Tax Payable, including Additional Tax, Interest and Penalties, as per Agreements issued by the Inland Revenue Department before Reductions and excluding Estimations

System	Tax Payable (€)
Pre'99	143,280,398
Self Assessment	145,902,421
Total	**289,182,819**

Table 2 – Total Agreements sent and Down Payments received by the Inland Revenue Department, including Committed Amounts

System	Number of Agreements Issued	Number of Agreements Returned	%	Down Payments requested under Option One (€)	Down Payments requested under Option Two (€)	Down Payments received (€)	Committed Amounts (including Payments Received) (€)	% of Option One	% of Option Two
Pre'99	20,308	1,999	9.8	107,452,742	114,573,562	1,773,447	2,227,742	1.7	1.5
SAS	22,211	8,837	39.8	80,046,878	87,654,938	22,516,058	26,426,422	28.1	25.7
Employers	6,074	2,395	39.4	85,655,352	88,567,914	8,518,071	23,493,870	9.9	9.6
Total	**48,593**	**13,231**	**27.2**	**273,154,972**	**290,796,414**	**32,807,576**	**52,148,034**	**12.0**	**11.3**

Source: IRD

Table- 3 – Agreements returned and Down Payments received by Scenario

Scenario	System	Number of Agreements returned	Down Payments received (€)	Committed Amounts (including Payments received) (€)
Tax Audit	Pre'99	3	12,074	25,106
	Self-Assessment	70	356,706	393,364
Tax Compliance Unit Audit	Self-Assessment	35	473,525	611,047
Withdrawal of Court Case	Employers	101	2,011,192	6,528,993

Source: IRD

Ministry for Justice and Home Affairs

Courts of Justice Summoning and Expenses of Witnesses, Jurors and Experts in Criminal Court Trials

Background

The Law Courts' mission is *"to provide both the public and the judiciary effective and efficient services, structures and know-how to enable the public to understand, follow and be informed of the judicial processes in which they may be involved and to provide the judiciary with the necessary staff, tools and services in order that they may dispense justice properly and efficiently"*.

The Courts of Justice (COJ) deal with all civil and criminal proceedings. However, the audit focused solely on the Criminal Court.

For Financial Year 2010, the recurrent budget allocated to the Criminal Court, for 'Summoning and Expenses of Witnesses, Jurors and Experts in Criminal Court Trials' - Account 5154 under Programmes and Initiatives - stood at €980,000. During the year, the Ministry of Finance, the Economy and Investment (MFEI) revised this budget upwards to €1,064,317. The actual recurrent expenditure for 2010 amounted to €1,061,129. A substantial portion of this expenditure totalling to €964,522, i.e. 91% was paid for professional services rendered by Court Experts.

The Criminal Code (Cap. 9) provides for the appointment of experts to assist the Courts by carrying out the functions assigned to them by the cited code. However, the excessive fees that are often paid to Court Experts for the reports they draw up, coupled up with the possibility that the latter might at times be appointed unnecessarily, has been a matter of concern voiced by the then Chief Justice[1].

Audit Scope and Methodology

The main objectives of the audit were to establish whether:

1. expenditure incurred in Financial Year 2010 from Control Account 5154 was accurate, complete and related to summoning and expenses of witnesses, jurors and experts in criminal court trials, as intended; and

2. procurement and contracting activities were carried out in accordance with standing laws, regulations, policies and procedures, thus ensuring efficient administration of public funds.

Internal operating procedures were assessed and evaluated. Officers within the specific units related to the areas reviewed, were contacted and/or interviewed, during the course of the audit.

In total, 116 transactions, collectively amounting to €398,907, were verified, from the total actual recurrent expenditure of €1,061,129, i.e. a testing level of approximately 38%.

Audit Disclaimer

No Assurance obtained that Hospitality Expenses incurred were reasonable

During the financial year under review, the total amount of €44,429 was incurred on hospitality services provided to jurors during court proceedings. However, no audit

[1] ***Source***: Press Commentaries DOI dated 14 October 2005

procedures could be carried out in order to ensure that, in the circumstances, the paid amounts were reasonable and justified. The Public Service Management Code (PSMC) only stipulates the *'Per Diem'* Allowance to be paid to public officers. Thus, actual board and lodging expenses incurred in respect of jurors falls outside the scope of these guidelines.

Key Issues

No Formal Procedure for the Nomination of Court Experts

Following explanations provided by Management, it was noted that no formal procedures regulating the nomination of Court Experts are in place. In actual fact, individuals are designated as Court Experts at the sole discretion of the respective Judge or Magistrate.

Consequently, a roster system as requested in the Criminal Code is not being prepared.

Rates paid to Court Experts not stipulated

No official rates have been established for professional services rendered to the Criminal Court. Despite the fact that during an NAO audit carried out in respect of Public Accounts 2003 this shortcoming was reported upon, it resulted that seven years later standard tariffs to regularise the payment system were not yet introduced. The rates actually applied are taxed by the Court Registrar after negotiating the fee due with the respective expert. Types of services vary from those given by medical professors, architects and forensic experts, amongst others.

Lack of Segregation of Duties and Insufficient Internal Controls

Throughout the audit, various examples of lack of control were encountered. For example, it was noted that 31 Payment Vouchers (PVs) out of a sample of 37 payments covered by a Local Purchase Order (LPO) (i.e. 84%) were endorsed by the same officer who had formerly approved the relative LPO.

The absence of basic controls has led to undetected errors, resulting in over/underpayments, as well as non-compliance with standing rules and regulations.

Lack of Source Documentation and Evidence supporting Payments

In a number of instances, source documentation such as contracts and agreements, indicating the applicable tariffs and stipulating the applicable 'Terms and Conditions', were not readily available. Thus, the basis on which officers were certifying the invoices and issue subsequent payments could not be determined.

Control Issues

Opportunities for improvement were identified in the following areas:

Court Experts

Reimbursements advanced to Court Experts not itemised

Other than the professional fees, commonly known as *'Dritt'*, Court Experts are also reimbursed for additional expenses such as transport, access, photos and other miscellaneous expenditure incurred whilst carrying out work assigned by the Court. Such expenditure is reimbursed in line with stipulated rates as established by the Deputy Registrars, through their experience along the years. The following shortcomings were noted:

a) Out of a total of 497 sub-vouchers tested, 177 included proper break-down of the additional expenses claimed, amounting to €21,255 (excluding VAT), over and above the charge for services rendered. However, this additional expenditure could not be validated due to the lack of supporting evidence of the claimed cost, such as respective receipts.

b) In another 282 instances, no separate expenses have been claimed. However, due to the lack of available details, coupled with lack of transparency in the chargeable rates, it could not be ascertained whether in such cases, the reimbursed expenditure was incorporated with the *'Dritt'* which summed up to €86,862 (excluding VAT).

c) No audit testing could be carried out on the remaining 38 claims for reimbursement for additional expenses amounting to €8,383(excluding VAT). This was due to the fact that, despite that the reimbursed amount was disclosed on the face of the sub-voucher, this was illustrated as a lump-sum with no specific break-down being provided.

Lack of verification on payments to Court Experts leading to Over/Under Payments

Whilst verifying whether the amounts taxed by the Deputy Registrars were correct, it was noted that, on instances, the castings were inaccurate. These errors ranged from an overpayment of €100 to a Court Expert, to an underpayment of €400 to another Court expert.

Incorrect Payments to Public Officers rendering Specific Services to the Court

The PSMC stipulates that full-time public officers requested to give expert advice or other service in Court, with respect to specific cases which they do not deal with in the course of their duties, are allowed to retain 75% for the first €2,329 earned in a calendar year, whilst 50% is to be retained for fees earned thereafter.

During 2010, a total of 47 public officers provided their service to the Courts. The following shortcomings were noted:

a) In two instances, COJ did not deduct 25% from the amount due to the public officers, who were thus paid the full amount.

b) Fees earned in excess of the stipulated threshold of €2,329 by another ten officers were netted off by 25% instead of by 50% as laid down in the PSMC.

Inadequate Taxation System

Following the submission of the report by the Court Expert to the inquiring Magistrate, the Deputy Registrar establishes the fees that the former is to be paid. Such fees are disclosed on a template form commonly known as 'Sub-voucher', which is then forwarded to the Magistrate for endorsement. The duly endorsed sub-voucher is subsequently forwarded to the Accounts Section for payment. From queries raised by NAO, the following shortcomings were noted:

a) Neither a computerised nor a manual system is in place to ascertain that Court Experts are not paid for duplicate sub-vouchers. An instance was encountered whereby a dissector, who raised two claims for the same task, was consequently paid twice.

b) It is a common practice amongst Court Experts who are paid at a fixed rate, such as dissectors and radiographers, to present a readily filled in sub-voucher to the Deputy Registrar. In such instances, counter checks are minimal, thus leading to errors remaining undetected.

Shortcomings in the Sub-Vouchers compiled by the Deputy Registrars

From a sample of sub-vouchers verified, it was noted that at times such documents lacked certain details which rendered them as incomplete, hindering the validation of the respective payments.

Transcriptions

Unofficial Transcription Rates

Source documentation, indicating from where the transcription rate of €0.93 emanates was not provided. Following an agreement reached between a senior officer from MFEI on the Joint Negotiation Team and the Trade Union this rate was increased to €1.40.

Moreover, an extract from the Code of Organisation and Civil Procedure provided by COJ, indicates only one rate at which transcriptions are to be paid, being €0.35 for every 100 words or part thereof.

Two Transcribers earning nearly 50% of the Transcription Fees paid in 2010

In addition to their normal wage, two out of 22 COJ officers, who carried out transcription work during 2010, jointly earned the amount of €22,065 out of the total sum of €44,282 which was paid during the foregoing year, i.e. nearly 50%.

Translations

Fee for Translations decided by Deputy Registrar

Typed translations of Court Hearings are paid by the Criminal Court at the rate of €4.66 per page. The responsibility to determine such tariff was totally left to the jurisdiction of the Deputy Registrar. However, no source documentation was traced to this effect.

Translation Text Format not stipulated

The text format, to be applied for typed translations, is not specified. To this effect, it was noted that a particular officer carrying out this task was using large fonts coupled up with double line spacing, with the result that the number of pages involved was increased unnecessarily. Hence, requests for payment by this officer were noted to be on the high side.

Accommodation

Procurement Regulations not followed

During 2010 the amount of €28,156 was paid to a particular hotel, for providing accommodation on half board basis to individuals nominated as jurors during trial periods.

As against Procurement Regulations provisions, the following shortcomings were noted:

a) COJ did neither issue a Departmental Tender nor a call for quotations for the provision of such accommodation.

b) From payments raised and documents traced in the departmental files, it was noted that the direct procurement of such service was sought from the foregoing hotel for several years. However, no written evidence of approval from the right level of authority, to procure the service direct from the open market, was provided. The only relevant document traced relates to a quotation from this same hotel dating back to January 2002.

c) A formal agreement, indicating its duration and the conditions of service, could also not be traced.

Departmental File not traced

Departmental file No CJ26/1989 – Jurors Board and Lodging Expenses, requested for audit purposes, was not made available as this could not be traced by COJ officers.

Lunches

Quotations not sought

In order to be catered for on a full-board basis, individuals nominated as jurors are also provided with free lunches during trials. During 2010, COJ incurred a total amount of €11,083 in this respect. From verifications carried out on this area, the following was noted:

a) During the year under review, no quotations for mid-day meals were sought.

b) Such provisions were repeatedly procured from the same three restaurants. Moreover, formal agreements stipulating pre-established prices to be charged by the latter were not evidenced.

c) The only relevant document traced in the respective Departmental file dates back to 5 September 2006, whereby quotations for set menu lunch were sought from different service providers. It was also indicated that they used to take jurors on a roster basis, to the first three restaurants that quoted the cheapest prices. However, only one of the restaurants that they are currently dining at is quoted on this document.

Court Officials provided with Lunches which they are not entitled to

From testing carried out, it transpired that COJ is also expending public funds on lunches provided free of charge, to court officials during trials. However, no formal entitlement in this regard could be traced. Following queries raised by NAO, COJ stated that this practice *"has been in place for well over seven years"*.

Leasing of Transport

Shortcomings in the Engagement of the Contractor leasing the Transport required for Jurors

During 2008, COJ issued a call for quotations for the leasing of transport for jurors during the trials by jury. Whilst checking, NAO noted the following shortcomings:

a) Instead of publishing a call for quotation in the Government Gazette in terms of Contracts Circular No. 44/2007, on 4 January 2008 COJ forwarded a request to The Malta Chamber of Commerce and Enterprise, to feature an advert in 'Chamberlink', a weekly circular issued to its members. In addition, nine car rental garages were also requested to forward a quotation.

b) Following several complaints raised both by the jurors and the administration, with regards to the poor quality of transport service provided by the contractor, the contract was terminated with immediate effect (i.e. on 25 November 2008).

   However, instead of going for the second cheapest bid, the other third cheapest bidder out of the four that submitted a quotation, was verbally informed and then confirmed by means of a letter dated 11 November 2008, that he was awarded the contract, following the acceptance of the quoted rates submitted on 17 January 2008.

c) The leasing of transport from this service provider commenced on 1 December 2008 and was still ongoing up to at least end of June 2011. Notwithstanding that both the quotations obtained and the agreement were only for services rendered up till December 2008, COJ did not issue a new call for quotation or a departmental tender for the services rendered thereafter.

d) Furthermore, no formal agreement indicating the conditions of service and the duration of the agreement could be traced. Only a letter of acceptance, indicating the accepted rates, was provided.

The foregoing supplier was paid the amounts of €5,100 and €6,576 for services rendered during 2009 and 2010 respectively.

Invoices for Chauffeur-driven services not adequately substantiated

The 'Clients Reports' supporting the invoices in respect of the leasing of transport for jurors, on several instances, failed to indicate the duration of the chauffeur-driven services although these trips are charged by the hour. Notwithstanding this, the invoices were still being certified as correct. Consequently, NAO could not ascertain whether the amount requested for payment was in accordance with the rates indicated on the quotation.

Travel

Member of the Judiciary nominating herself to Travel Abroad

A Member of the Judiciary (MOJ) accompanied a Court Expert in Singapore for the collection of evidence, between 27 January and 2 February 2010, in connection with the case relating to the death of an individual in 2005 aboard a ship registered in Malta. No formal documentation, requesting the presence of the Magistrate on the crime scene, could be traced.

Referring to NAO's query regarding this visit, COJ stated that this issue was investigated by the Commission for the Administration of Justice. However, COJ also stated that the outcome of this inquiry cannot be communicated to third parties.

Other Matters

Notification to the Inland Revenue Department not kept by the Courts of Justice

No audit testing could be performed at COJ so as to ascertain that a copy of all payments issued in 2010, not accounted for through the Purchases Ledger, which totalled €160,574, were passed on to IRD. COJ only holds a copy of the covering letter that is attached with the Multi-payments (MPs) that are forwarded to IRD.

Confiscation of Fishing Vessel

During 2010, an expense of €11,564 incurred by COJ related to a court case which initiated in 2008, whereby a wooden fishing boat, allegedly used for trafficking of irregular immigrants, was confiscated by the Courts and maintained by the Armed Forces of Malta (AFM) at the Maritime Squadron. However, due to the extensive damages that the boat incurred, since immediate action was not taken to berth it ashore, the Court was informed on 1 January 2010 that the boat had sunk. It also transpired that:

a) as disclosed in a report presented to the Law Courts by the prosecutor on 4 January 2010, the Court accepted the quote issued by a ship repair company which amounted to €4,000, for the salvage of the sunken boat as well as a further charge of €50 per day for berthing. However, this Office could not trace a copy of the mentioned actual quotation; and

b) an attempt to sell the aforementioned boat through the issuance of a tender on 26 March 2010 was rendered futile. Following the survey by a technical expert in this field, the boat was estimated with no value and consequently it was dismantled, dissected and completely demolished in the presence of a representative of COJ. Expenses which were previously incurred on the boat were thus not recouped.

Compliance Issues

VAT Legislation

Non-Submission of Fiscal Receipts

Whilst carrying out testing on the selected sample of 33 PVs which were to be covered by a fiscal receipt, it was noted that in a total of 22 instances, i.e. 67%, amounting to €158,788, a fiscal receipt was not submitted to the recipient by eight different suppliers.

Reporting of VAT Defaulters not in line with Standing Procedures

Despite that returns with details of VAT defaulters are being compiled by COJ, the latter is forwarding these returns to the VAT Department semi-annually, notwithstanding that a quarterly timeframe is stipulated in MF Circular No. 5/2002 'Submission of fiscal receipts to Government Departments'.

Lack of Audit Trail for Income Tax and VAT purposes

a) Persons providing medical and health services are not obliged to register with the VAT Department and are thus not required to issue fiscal receipts. However, this does not preclude them from issuing an ordinary receipt under other existing legislation. From testing carried out, it transpired that medical professors appointed as Court Experts were not furnishing COJ with any receipts upon the settlement of payments for services rendered by them.

b) Transport services were procured from a service provider that has the VAT Department's authority for the issuing of computerised receipts instead of the common fiscal receipt. However, it was noted that the exemption number issued by the foregoing Department was not quoted on the receipts submitted by this supplier, as required by the VAT authorities.

c) During the year under review, the amount of €5,013 was paid to a parent company in respect of lunches provided to jurors and court officials during trials. However, it was noted that invoices submitted to COJ in this respect, were not issued by the parent company which has the VAT Department's approval to issue computerised receipts in lieu of fiscal receipts. Bills were in fact sent by one of its subsidiaries which does not have a VAT Exemption number. In this case, the computerised receipt presented does not legally suffice, since besides not having the billing system tested by the VAT authority, the receipt submitted failed to provide functions equivalent to those required by fiscal cash register.

Public Service Management Code

Shortcomings in the compilation of the 'Statement of Expenses'

The review of a sample of three out of the four work related visits overseas taken up by the Criminal Court during 2010, revealed that travelling provisions as laid down in the PSMC were not fully adhered to. For example, no quotations were traced supporting the purchase of two flight tickets to Singapore, totalling €1,956, availed of between 27 January and 2 February 2010.

Recommendations

Key Issues

No Formal Procedure for the Nomination of Court Experts

NAO acknowledges that the appointment of Court Experts is an extremely sensitive matter. However, whilst MOJs are to be directly involved in such appointments, it is equally important that, for the sake of fairness and transparency, competent individuals who wish to serve as experts are, as far as possible, given the same opportunity.

COJ may consider publishing an 'Expression of Interest' in the Government Gazette, on an annual basis, whereby professionals and suitably qualified individuals who are interested in giving such service are given the chance to express their interest. Applicants are to submit the rates they are expecting as remuneration so that COJ would be in a better position to monitor, control and efficiently administer the approved budget.

Once persons appointed as Court Experts are identified, a register, disclosing both the name of these individuals and their area of expertise, is then to be compiled, regularly updated and made accessible to MOJs.

Rates paid to Court Experts not stipulated

For effective control, fixed hourly tariffs are to be established which, as far as possible, should justly remunerate the expert without impinging on transparency and cause unduly high costs to Government.

Lack of Segregation of Duties and Insufficient Internal Controls

Lines of responsibility should be clearly identified and communicated to all employees. A formal system for the authorisation and approval of procurement, certification of invoices and subsequent payments needs to be in place. Different levels of the procurement process, including the recording thereof, should be undertaken by different individuals, where this is possible.

Internal controls are fundamental to the successful operation and day-to-day running of COJ. It is thus recommended that the latter intensifies its own internal control procedures having regard to its specific circumstances. These are to respond quickly to any possible risks and should include procedures for the immediate reporting of identified weaknesses, or significant control failings, to appropriate levels.

Lack of Source Documentation and Evidence supporting Payments

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.

Control Issues

Court Experts

Reimbursements advanced to Court Experts not itemised

COJ is to ascertain that unless requests for payments are duly supported by detailed breakdown of the claimed expenses as well as the respective receipts, where possible, these are not to be honoured.

Lack of verification on payments to Court Experts leading to Over/Under Payments

A more reliable system is to be in place, whereby proper verifications are performed prior to the settling of payments. Moreover, COJ is to review all payments effected in this respect during 2010, so as to identify other errors not detected from the audit sample.

Incorrect Payments to Public Officers rendering Specific Services to the Court

Strong internal controls are to be implemented so as to ensure that the statements, submitted by the Deputy Registrars to the Accounts Section for payment, are thoroughly checked and certified correct prior to the issuance of payments. Moreover, deduction rates are to be applied in accordance with instructions laid down in the PSMC.

Inadequate Taxation System

Billing is not to be accepted at face value. All claims are to be duly certified correct by an independent officer prior to being forwarded for payment. Officers endorsing a document, and/or certifying claims, are to be held responsible that the data, including the amounts contained in that document, is correct. Unless adequate checks are carried out, no certification is to be endorsed, and no payments are to be effected.

Amount overpaid is to be recouped, ideally by off-setting with outstanding balance(s).

Shortcomings noted in the Sub-Vouchers compiled by the Deputy Registrars

Sub-vouchers are intended to indicate to the Accounts Section the remuneration due to Court Experts in relation to the work carried out. Hence, these are to be scrupulously compiled so as to eliminate incorrect payments.

Transcriptions

Unofficial Transcription Rates

All rates paid are to be backed by official documentation which is to be retained for future reference.

Two Transcribers earning nearly 50% of the Transcription Fees paid in 2010

COJ is to consider whether engaging full-time officer(s) to carry out transcriptions would be more economically feasible.

Translations

Fee for Translations decided by Deputy Registrar

For the sake of transparency, it is important that fees paid in respect of Court proceedings are made official and are not to be decided at the discretion of the Deputy Registrar.

Translation Text Format not stipulated

COJ is to establish guidelines, including font and line spacing, to be used by all officers when typing translations.

Accommodation

Procurement Regulations not followed

COJ is to adhere to the Procurement Regulations. When service providers are engaged directly from the open market, approval is first to be obtained from MFEI, with such approval indicating reasons justifying this approach.

Each service is to be backed by a signed agreement between the parties involved and supported by a valid bank guarantee, where applicable. Both the conditions of service and the duration of the agreement are to be clearly indicated.

Departmental File not traced

All documentation is to be kept secure and well filed. This would ensure that all files requested are easily retrieved so as to be provided in a timely manner.

Lunches

Quotations not sought

Management is to consider reverting to the practices in place during 2006, whereby quotations for set menu lunches were sought from different service providers. On a roster basis, jurors were taken to the first three restaurants that quoted the cheapest prices, unless a valid reason is given for different decisions taken.

Court Officials provided with Lunches which they are not entitled to

As long as this matter is not discussed with pertinent authorities and consent for such practice is obtained, Management is to refrain from paying for lunches on behalf of Court officials.

Leasing of Transport

Shortcomings in the Engagement of the Contractor leasing the Transport required for Jurors

Apart from strictly adhering to the Procurement Regulations as already recommended, Heads of Department are requested to take the necessary measures in order to ensure that public procurement contracts are awarded in a fair and transparent manner as established by these Regulations. Contracts are to be awarded to the most economic and advantageous compliant bidder, unless otherwise justified.

Invoices for Chauffeur-driven services not adequately substantiated

To enhance control over this expense, COJ may consider requesting the service provider to issue transport vouchers, indicating the destinations and the duration of the trips. The (last) individual making use of this service is to sign these forms which could then be attached with the respective invoices by the service provider.

Officers verifying and endorsing invoices are to be provided with all the information required for such review. They should be aware that once they are certifying the correctness of the invoice, they are assuming responsibility for such payment. Moreover, double checking of one's work by an independent officer at the Accounts Section is recommended to ensure accuracy of payments.

Travel

Member of the Judiciary nominating herself to Travel Abroad

COJ should consider seeking prior approval also from the Chief Justice when the presence of a MOJ is required to accompany a Court Expert abroad.

Other Matters

Notification to the Inland Revenue Department not kept by the Courts of Justice

A database, illustrating details of MPs forwarded to IRD, is to be compiled and counter-checked by an independent officer. This will minimise the unintentional possibility that copies of MPs might never reach IRD, with the result that income earned remains undeclared.

Confiscation of Fishing Vessel

COJ is to ensure that, unless in exceptional circumstances a Direct Order approval is sought from MFEI, Procurement Regulations are to be strictly adhered to.

Compliance Issues

VAT Legislation

Non-Submission of Fiscal Receipts

Heads of Department are to ensure that all suppliers, who received payments or part thereof for goods and services provided, adhere to the VAT Regulations by furnishing the client with a valid fiscal receipt. In cases where the supplier lacks adherence to VAT regulations *'the department should immediately discontinue to purchase from such defaulter'* until this situation is rectified.

Reporting of VAT Defaulters not in line with Standing Procedures

Management is to ensure that established timeframes for the submission of complete returns, as stipulated in pertinent regulations, are adhered to.

Lack of Audit Trail for Income Tax and VAT purposes

It should be in the interest of COJ to request an invoice from all service providers in order to be aware of what the latter is being paid for. Furthermore, in line with pertinent regulations, COJ is also to ensure that subsequent to payment it is invariably issued with a fiscal receipt by all VAT registered suppliers.

Public Service Management Code

Shortcomings in the compilation of the 'Statement of Expenses'

COJ is to ensure that officers entrusted with the administrative responsibility of official visits arrangements as well as travelling officers, adhere with the pertinent regulations and duly fill in the stipulated templates so as to ascertain accountability of the expenditure incurred out of public funds. The necessary quotations are to be obtained for flights not using the national airline. These are to be filed with the other relevant documents of the respective visit.

Management Comments

Management concurred with most of the findings highlighted in the report and action has immediately been taken to comply with a number of NAO's recommendations, whilst others will be taken on board in due course. In addition, the following comments were submitted:

- In relation to the appointment of Court Experts, COJ confirmed that such engagement is the prerogative of MOJs. It also stated that the administration will only issue an expression of interest when it is comforted with the relative legal amendments in the Criminal Code. However, COJ reiterated that MOJs will still not be bound to abide by this list since they would still retain the right to appoint experts not included in the list.

- COJ remarked that a Board was appointed way back in August 2001, aimed at establishing pre-set rates payable for the services of Court Experts. However, the rates established by the Board were never applied since these were considered too high.

- In view of transcription work carried out, COJ argued that sometimes it is difficult to find enough staff to perform such duties. Furthermore, on certain instances, transcription work is distributed directly by MOJs who prefer some transcribers than others, due to their efficiency, accuracy and reliability. Moreover, Management deems that the current system is more economically feasible *vis-à-vis* the recommendation put forward by this Office, on the grounds that the annual expenditure incurred on transcriptions is approximately equivalent to the salary of three full time clerks, who in the formers' opinion, would still not cope with the transcriptions required.

- The salvage and berthing of the fishing vessel were made by the Police during Court proceedings and without the Registrar's knowledge, after seeking permission from the Magistrate conducting the case. The Police resorted to the supplier in question after they were informed by AFM that the latter had no such facilities. Finance Section was only informed about the matter in order to pay the fees due to the supplier. Since an attempt to sell the vessel was not successful, COJ had no other option but to request a direct quotation for the destruction of the boat in order to avoid additional daily berthing charges.

Office of the Attorney General
Recurrent Expenditure Audit

Background

The Office of the Attorney General (OAG), which falls under the remit of the Ministry for Justice and Home Affairs (MJHA), is established in terms of Article 91 of the Constitution of Malta. The Attorney General Ordinance, 1936 (Cap. 90) requires that OAG, as a Government Agency, is headed by the Attorney General and is the medium through which the latter carries out his functions according to law.

The Attorney General is appointed by the President of Malta, acting on the advice of the Prime Minister. As the chief legal advisor to Government, the Attorney General has the function of assisting Government on proposed legislation and to draft the necessary Bills. He is also required to attend the sittings of the House of Representatives during the passage of Bills, so as to give advice to the Ministers concerned and draft any amendments which might be deemed necessary. Furthermore, in view of the bilingual edition of all legal enactments, the Attorney General's Office is responsible for the translation of all laws.

OAG's initial budget allocation for 2010 amounted to €2,569,000, out of which, €1,495,000 (i.e. 58%) was targeted at Personal Emoluments. By end of year, the original budget was decreased by €663,000, i.e. almost 26%, thus resulting in a revised budget line of €1,906,000. Actual amounts paid out of OAG's Vote during the year totalled €1,571,678, resulting in unutilised funds of €334,322, after the virement deductions. Therefore, only 61% of the original budgeted allocation was availed of. As expected, the aggregate payment of €1,229,859 in Personal Emoluments was the major expense, amounting to 78% of the OAG's recurrent actual expenditure.

Funds remained unexpensed from a number of accounts, with the largest savings being made from Improvements to Property, Contractual and Professional Services, Office Services and Travel. The trend of having unutilised funds at the end of the Financial Year has been occurring at least since 2008. In fact, whereas OAG's Vote in 2008, 2009 and 2010 was €2,569,000 per annum, yearly amounts not utilised were in the region of €800,000 to €1,000,000.

Audit Scope and Methodology

The scope of the audit was to ensure that expenditure incurred by OAG during 2010 was appropriately recorded and processed according to the General Financial Regulations, 1966 and other pertinent Regulations and Circulars.

Audit work performed covered a sample of transactions charged to various expenditure accounts, namely, Rent, Transport, Contractual Services, Professional Services, Incidental Expenses, Improvements to Property and Equipment. The selection of transactions falling within the audit sample was based on materiality. A total of 25 transactions[1], collectively amounting to €86,892 were verified.

Given that a large portion of OAG's Vote for 2010 was spent on Personal Emoluments, audit testing was also performed on allowances, overtime, income supplements and bonuses. Out of a total of 48 staff, three employees were chosen for salaries testing and another three for verification on overtime payments. The salary paid to a

[1] Twenty of these transactions (amounting to €42,725) were Payment Vouchers, or formed part of a Payment Voucher, while the remaining five transactions (amounting to €44,167) were Schedules of Payment.

consultant, engaged on a general contract which expired in the year under review, also fell in the audit sample.

Further testing was carried out on the fuel consumed by the fully-expensed vehicles assigned to senior officers, and on three visits abroad undertaken by OAG officials.

Control Issues

Opportunities for improvement were identified in the following areas:

Expenditure Issues

Lack of Audit Trail for the Hire of Self-driven Vehicle

In 2010, a total of €5,090 was paid for the hire of a self-driven vehicle between December 2009 and September 2010. Although a number of files relating to this hire were reviewed by the National Audit Office (NAO), information as to how this supplier was engaged, as well as details on the vehicle make and model, were not available. Furthermore, the hire was not supported by an agreement between OAG and the supplier, thus hindering verifications to ascertain that the rates charged were correct.

Upon querying on the matter, an OAG officer confirmed that the vehicle was leased years ago through an MJHA tender agreement with the supplier covering vehicles in use by the Courts of Justice.

With effect from 13 September 2010, the self-driven vehicle was transferred to the Law Courts.

Payment for Cleaning Services exceeding Maximum Cost indicated in Direct Order Approval

The Direct Order approval for cleaning services at OAG, for the period 2 January to 31 December 2009, was granted on the condition that the maximum cost of €8,000 (Value Added Tax (VAT) included) is by no way exceeded. This approval was further extended in November 2009 to cover the subsequent year, under the same conditions as those indicated in the previous approval.

However, these thresholds imposed by the Ministry of Finance, the Economy and Investment (MFEI) were exceeded in both years, with payments during 2009 and 2010 totalling €8,569 and €8,640 respectively.

Court Fees paid not adequately substantiated

a) Although the Courts of Justice requested OAG to pay €8,551 in respect of court fees for April 2010, only €7,031 were actually paid. No information was traced to the files reviewed explaining the discrepancy in the figures. During the audit, OAG officers were verbally asked to provide clarifications. However, the latter could not recall the reasons which led to the difference in the amount paid.

b) Information supporting another Schedule of Payment issued to the Courts of Justice indicated that amounts due with respect to *'Ċedoli ta' Depożitu'* amounted to €3,395. However, this figure did not tally with the totals of the four Transfer Schedules of Payment, intended to support the foregoing payment, totalling €3,539. Furthermore, according to the request for payment raised by the Courts of Justice on 15 April 2010, no amounts were due for *'Ċedoli ta' Depożitu'* for March 2010.

Rental Payment not covered by Agreement

On 12 October 2010, OAG transferred €20,000 to the Government Property Division (GPD) in respect of rent for the year 2010, relating to premises situated in Strait Street and Archbishop Street, Valletta. This rent was paid in spite of the fact that MJHA had contributed towards the expropriation of part of this property in 2009.

As also confirmed by an OAG officer, no contract was in place covering the rental of this property. Thus, the terms and conditions of the agreement, including the commencement and termination dates of the rental period, as well as rental amount and other related details, could not be verified.

Salaries and Perks

Entitlement to Allowance not officially clarified

Although clarification was sought from the Office of the Prime Minister (OPM) by NAO on 17 May 2011, as to whether acting allowance is due to an officer holding an official appointment as Deputy when temporarily replacing his superior, no official reply was forthcoming.

Fuel Intake exceeding established Limits

Between January and August 2010, a total of 2,025 litres (costing €2,400) were purchased for the fully-expensed vehicle assigned to a senior officer within OAG entitled to maximum non-cumulative fuel consumption of 175 litres per month, as per MFC Circular No. 5/98. This ceiling was exceeded in all months between January and August, when the respective incumbent was in office, with the aggregate excess totalling 625 litres.

Parking Space paid for by OAG not utilised

On 14 June 2010, OAG paid for a parking space at a Floriana private car park, for an annual use by the Deputy Attorney General. However, this parking space remained unutilised for a long period of time since the post of Deputy was vacated on 9 September 2010 and was still vacant in June 2011.

Travel

Insufficient Quotations obtained for Air Travel

Two out of the three visits abroad chosen in the audit sample lacked sufficient quotations for air travel. In fact, only one quotation was traced to the files reviewed in respect of the visit abroad between 10 and 11 November 2010. On the other hand, quotations for flight tickets for officers travelling between 10 and 12 May 2010 were obtained only from two travel agencies. In both instances, no quotations were obtained from the national airline, as required by the Public Service Management Code (PSMC).

Untimely repayment of unused Travel Advances

As per standing regulations, officers travelling on official duties are to refund unused travel advances within one month from their return. However, out of the five refunds examined relating to the three visits abroad falling in the audit sample, three repayments were effected later than the stipulated timeframe. In one instance, the travelling officer refunded the unutilised public funds almost four months after her return.

Furthermore, none of the statements of expenses compiled by the five officers travelling abroad on these three visits were dated.

Inventory Records

Inventory Database not adequately maintained and updated

At time of audit, the compiling of OAG's inventory database was still in its initial stages, with less than 50 items recorded up till then. The limited records in the database also lacked mandatory details such as the date when the asset was acquired, its cost, make/brand and serial number, where applicable.

Furthermore, audit testing revealed at least ten purchases with a total of 29 items worth €37,433, procured during 2010, which were not recorded in the inventory database. While most of the transactions were correctly posted in the accounts allocated for the acquisition of equipment, two transactions amounting to €2,546 were charged to the Incidental Expenses – Sundry.

Compliance Issues

Fiscal Defaulters not reported to the VAT Department

Out of the audit sample of 20 transactions[2] (for a total value of €42,725), two payments collectively amounting to €1,100, pertaining to the same supplier, were not supported by a fiscal receipt.

The defaulter identified during the audit was not reported to the VAT authorities. It also transpired that OAG submitted a 'NIL' return for fiscal defaulters for the first half of 2010, while reporting just one defaulter for the last six months of the year under review.

Misallocation of Expenditure

Out of the 25 transactions chosen in the audit sample, three transactions amounting to €3,208 were noted to have been charged to the wrong account. This does not include a further five transactions which did not form part of the audit sample, but which were encountered while conducting audit testing, thus leading to a total misallocated amount of at least €4,064.

Recommendations

Control Issues

Expenditure Issues

Lack of Audit Trail for the Hire of Self-driven Vehicle

Future hire of self-driven vehicles is to be adequately supported by a valid agreement, including all necessary documentation, particularly that relating to the selection of the supplier.

[2] Although the audit sample consisted of 25 transactions, the five Schedules of Payment were not relevant for this observation.

Payment for Cleaning Services exceeding Maximum Cost indicated in Direct Order Approval

OAG is to ensure that all the conditions set in Direct Order approvals are abided with. Where it is envisaged that payments to the supplier/service provider will exceed those stipulated in the original approval, guidance is to be sought from MFEI.

Court Fees paid not adequately substantiated

Prior to effecting payments with respect to court fees due, OAG is to ascertain that all charges are adequately backed by supporting documentation. In the event that amounts paid differ from those indicated on the requests by the Courts of Justice, the reasons leading to such deviations are to be duly recorded.

Rental Payment not covered by Agreement

OAG is expected to be in possession of a valid agreement supporting the rental payment. Proper terms and conditions are to be included, besides the amount due and period covered.

Salaries and Perks

Entitlement to Allowance not officially clarified

Prior to issuing an acting allowance, OAG is to obtain the necessary clarification of its entitlement from the appropriate authorities.

Fuel Intake exceeding established Limits

Fuel consumption of fully-expensed vehicles is to be kept within the limits permitted by standing regulations.

Parking Space paid for by OAG not utilised

OAG could have at least tried to negotiate with the service provider to extend the term during which the parking space could be used, in order to make up for the period for which such space remained unutilised.

Travel

Insufficient Quotations obtained for Air Travel

Standing regulations clearly state that all air travel ticket arrangements are to be made through Air Malta. In the event that the national airline is not in a position to make the necessary air travel arrangements, alternative travel is permissible. However, this should only be authorised on the presentation of three quotations, one of which from the national airline.

Untimely repayment of unused Travel Advances

Officers travelling abroad are to account for the advance made to them within one month from their return, as required by the PSMC. This is to be done by timely submitting the necessary forms and statements of expenses, which are to be dated, as well as by repaying any unutilised advances.

Furthermore, travelling officers are not to be issued with a new advance before they account for advances made to them for previous visits abroad.

Inventory Records

Inventory Database not adequately maintained and updated

OAG is to continue in the exercise of compiling its inventory database without delay. All fields in the template are to be accurately filled in, as required by MF Circular No. 14/99.

Furthermore, the officer in charge of inventory is to be timely notified of new assets purchased, in order to update the database accordingly. Any transfer of existing assets or changes in location is also to be duly recorded.

Compliance Issues

Fiscal Defaulters not reported to the VAT Department

The responsible officers are to ensure that they are invariably issued with fiscal receipts by all suppliers, while defaulters are to be reported to the VAT authorities as per standing regulations.

Fiscal defaulters are to be identified at an early stage, so as to enable OAG to discontinue business with persistent defaulters.

Misallocation of Expenditure

Expenditure is to be accurately and invariably posted to the relevant accounts. The proper virement procedure is to be followed should there be insufficient funds in a given Line Item.

Management Comments

Whilst thanking NAO for the compilation of the Report, Management stated that the findings identified will help to ameliorate the functions and performance of OAG. However, it still held some reservations concerning a number of NAO's observations.

Management claimed that, since it was expected to vacate its current premises by 31 May 2011, Ministry authorities were urging OAG not to invest in improving the property. This resulted in savings in OAG's budget allocation.

Furthermore, Management admitted an oversight during the estimates of works in the cleaning services for 2009 and 2010, which led to the maximum cost specified in the respective direct order being exceeded.

In its reply to NAO's Management Letter, OAG stated that a request to upgrade fuel consumption above the established monthly threshold of 175 litres to 250 litres per month, due to the exigencies of the officer, was sent to OPM in 2009. However, no evidence of OPM's formal approval was provided to NAO.

Management further claimed that it terminated the parking membership as soon as the facility expired.

Civil Protection Department
Personal Emoluments 2010

Background

The audit covered the Personal Emoluments of the Civil Protection Department (CPD) for the year ended 31 December 2010. Budgeted and Actual Expenditure under Vote 45, in this regard, amounted to €3,707,000 and €3,552,352 respectively.

During 2010, CPD was manned by 10 Administrative Staff, seven Station Officers (SOs), 29 Leading Assistance and Rescue Officers (LAROs), 89 Assistance and Rescue Officers (AROs), one Senior Tradesman and two Extended Skills Training Scheme Students, under the leadership of Director CPD. In addition, 51 volunteers were assigned in order to provide service during feasts and other activities.

Audit Scope and Methodology

The objectives of the audit were to check officers'[1] salary payments, mainly overtime and allowances, evaluation of the internal control system and ensure that volunteers were in line with the eligibility criteria as set out in the provisions of the Civil Protection (Volunteer Corps) Regulations S.L. 411/03.

An overview of the procedures and controls in place was obtained by means of meetings held at CPD. A sample of 30 officers and 20 volunteers was selected for further audit testing.

An *ad hoc* checklist for volunteers, including all the relevant provisions as per legislation, was created to ensure their eligibility. Personal record files, copies of oaths, renewals and any other relevant documents were requested.

Key Issues

Volunteers

Limitation on Scope

The personal record files of volunteers were not updated and the exercise of organising such records was still ongoing as at the date of writing of this Report, thus testing could not be performed.

Non-Compliance

The 2010 list of volunteers was not readily available and once forwarded to the National Audit Office (NAO), it was noted that the date of entry of 17 volunteers was still missing. Furthermore, another six volunteers who joined CPD during 2009 were still waiting to take the oath. This goes against Civil Protection (Volunteer Corps) Regulations S.L. 411/03, Articles 13 (1) and 3 (4) respectively, which state that *"The Department shall keep an updated register and, or database of volunteers …"* and *"No person shall be appointed a member of the Corps in terms of these regulations unless he has taken the Oath of Office …"*.

Lack of Reference and Training

The two Principals in charge of Salaries verbally stated to NAO that they were not given an appropriate hand-over and training. The only points of reference on their appointment were documents and workings of previous salary payments, generally not supported by any explanations. Therefore, many procedures are carried out automatically and certain practices are not backed up by official regulations and legislation.

[1] Officers refer to Administrative Staff, Station Officers, Rescue Force Officers, Senior Tradesman and Extended Skills Training Scheme Students.

Students

The salary payments as per Payroll Personnel System could not be reconciled with the rates at which two students should have been paid. The audit revealed also that the monthly salary of these students for 2010 remained unchanged even though the rate of pay was supposed to change during October 2010.

Previous Members of the Armed Forces of Malta

Missing Contract

A copy of the definite contract of an ex-member of the Armed Forces of Malta, deployed as ARO at the Gozo Heliport with CPD, was not available for review.

Inconclusive Testing

The contracts of four AROs selected for testing (excluding the above mentioned missing contract), dated 7 September 2004, stated that an ARO in Salary Scale 14 progresses to Salary Scale 13 on completion of five years service and further progresses to Salary Scale 12 on completion of a further three years service. On 11 December 2008, prior to the completion of the five years of service at Salary Scale 14, a letter superseding the original contract was sent to the AROs appointing them to *"Officer in Scale 14"* for an indefinite period with effect from 7 December 2007. The foregoing AROs continued to be paid at Salary Scale 14 up to 2010. This matter was contested by the officers in question and the matter was brought up with the Office of the Ombudsman. Related legal documents were held at the Office of the Attorney General. However, these were not provided for audit purposes.

Rate of Payment for Allowances to Station Officers

Two SOs currently in Salary Scale 9, were paid allowances at the maximum rate of Salary Scale 10. Upon enquiry, Management was not able to substantiate this approach as *"… the previous officer's footsteps"* were followed.

Lack of Segregation of Duties regarding Authorisation of Rosters and Vacation Leave Application Forms

Nine Vacation Leave (VL) application forms and 19 Rescue Force Officers' rosters were not certified and approved by the authorised officials. This may imply lack of control over the preparation of same and availing of VL without the proper approval.

Action by Management

During 2011, but prior to the audit, a roster which no longer requires the Director's approval has been designed and put into use. Discussions are still under way as to whether hard copies, which are sent to CPD Head Office, should be endorsed by SOs or LAROs.

Control Issues

Deficiencies in Updating of Records

Sick Leave

On two different instances, Sick Leave (SL) records were not accordingly updated, risking salaries not being adjusted in case officers exceed their full pay entitlement.

Vacation Leave

In another case, VL records were not accordingly updated. Officers may thus risk exceeding the number of hours/days to which they are entitled.

Time Off *In Lieu*

In one instance, Time Off *In Lieu*[2] (TOIL) availed of was not deducted from the respective records even though the officer was marked as TOIL on the roster. In another two separate cases, TOIL records were erroneously deducted by an additional 2.5 and 1.5 hours respectively.

Incorrect Overtime Payments

Overtime hours were still paid in instances when overtime was not worked, either due to the officer being on SL, or the officer availing himself of TOIL or the officer paid for extra duty overtime during his normal shift.

Unofficial Replacement of Duty amongst Officers

In cases of unofficial replacement of duty arranged between the officers themselves, it was noted that VL taken is not deducted accordingly with the risk that officers may avail of VL without it being recorded. It

[2] Time Off *In Lieu* hours are gained by performing and attending to certain duties during the free time (such as training courses and maintenance work), instead of being paid as overtime.

was also noted that officers may prefer to informally replace duty on particular days (mainly Sundays and Day/Overtime shifts)[3] in order to be paid for overtime hours. This created a situation whereby in actual fact, the officer concerned ended up working two consecutive shifts, amounting to 48 hours which give rise to health and safety considerations. Another point worth noting is that for the year under review, the Salaries Section was not informed of any replacement of duties.

Inconsistent Vacation Leave Application Forms

Since VL is not applied for and recorded on individual personal leave cards, but is recorded on separate VL application forms which are stored randomly, there is the risk that these forms may be overlooked and VL availed of not being deducted from officer's entitlement. Also, different types of forms are being used, indicating lack of conformity amongst the stations.

Personal Record Sheets not Updated

One personal record sheet was not traced and 19 personal record sheets were not updated, indicating that the latest salary conditions are not being reflected accordingly. CPD officers stated that they are *"... in the process of updating such records"*.

Compliance Issues

Sea-going Allowance

SL was not deducted from an officer's sea-going allowance, even though such full-time officers are not entitled to this allowance while on SL. Officers in charge of Salaries verbally stated that they were not aware of such clause.

Recording Attendance

Neither of the methods currently used, which involve amounts of paperwork as well as manual checking and inputting in excel records, give sufficient evidence of an officer's attendance hours on the job.

Recommendations

Key Issues

Volunteers

Personal record files are expected to be sorted, updated and invariably kept at the Salaries Section in a more controlled environment.

All requested information is to be submitted in a timely manner. The provisions set out by the Civil Protection (Volunteer Corps) Regulations are to be adhered to at all times and oaths taken without unnecessary delays.

Lack of Reference and Training

Appropriate training is to be given to the current officers in charge of Salaries. In addition all procedures applied are to be backed up by legislation and regulations currently in force.

Students

The students' salaries are to be revised and adjusted.

Previous Members of the Armed Forces of Malta

Unclear matters are to be resolved without further delays in order to ensure that the correct salary is being paid to these officers. Also, copies of contracts and documents are to be retained by CPD.

Rate of Payment for Allowances to Station Officers

CPD is to ensure that SOs are being paid at the correct rate of allowance, backed up by relevant regulations.

Lack of Segregation of Duties regarding Authorisation of Rosters and Vacation Leave Application Forms

For control purposes, it is recommended that same officers do not certify their own shift. Also, VL application forms are, as far as possible, to be formally authorised prior to utilisation.

[3] The Day/Overtime shift falls every 4th week and includes seven hours overtime from 00:01 to 07:00.

Control Issues

Deficiencies in Updating of Records

Controls over recording of SL, VL and TOIL is expected to be strengthened to ensure that records are appropriately updated.

Incorrect Overtime Payments

CPD is to enforce the current control of checking and recording of overtime hours. Any overpayments which may be due are also to be recouped.

Unofficial Replacement of Duty amongst Officers

In cases of unofficial replacement of duties it is being recommended that VL is deducted accordingly and monitoring and controls should be strengthened. Working hours can be reasonably reduced by splitting the burden between two different officers. Also, documents should be provided to the Salaries Section making it possible to keep track of any replacements.

Inconsistent Vacation Leave Application Forms

Upon the introduction of a network system in all stations, one may consider the possibility of applying for VL and approving it electronically. This would reduce administrative paper work as well as ensure that records are automatically updated. Otherwise, a personal leave card is to be created and stored in alphabetical order.

Personal Record Sheets not Updated

Personal record sheets are expected to be updated at all times.

Compliance Issues

Sea-going Allowance

Salaries and conditions for officers serving within CPD are to be abided with and the appropriate deductions made from the sea-going allowance as applicable.

Recording Attendance

CPD is recommended to introduce electronic attendance verification devices in all the stations and locations so as to increase controls over the actual hours worked. It also helps to eliminate manual data entry and simplify salary calculations.

Management Comments

Management welcomed NAO's comments and recommendations, and committed itself to rectify any issues raised. The following comments were submitted:

- *"It is planned that by the end of November all records pertaining to these volunteers will be updated."* Furthermore, the Department intends to *"... carry out an assessment of the six persons who have not yet taken oath ..."* and *"To this effect, the persons will have to pass through a twelve week course which will start shortly."*
- Nowadays, communication is *"... being recorded in the relevant files for any eventual future reference, hence ensuring that any logic behind running procedures is documented."* Also, the two officers in charge of Salaries *"... have participated in a training course on the new salaries system ..."*.
- The students' *"... default was discovered during a routine check by one of the officers at the Salary Section prior to the review exercise. To this effect, action was immediately taken to inform the payroll office at OPM to amend the relative salaries of the two students accordingly."*
- In order to retain documents at CPD, the *"... Department has recently changed the way of sending files to AG so that a copy of all documentation is replicated at this end."*
- In order to clarify the issue of rate of payment for allowances to SOs *"... a formal case will be presented to the relevant authority within Civil service ..."*.
- *"A standard operational procedure is going to be adopted within two weeks time so that the Station Officers in charge of the relevant stations/sections endorse the rosters. Vacation leave records are already being endorsed by the relevant SOs."*
- All discrepancies with respect to updating of records *"... have been addressed by the Salaries Section."* Also, *"Time management plans have been introduced ..."* even though *"... this action has influenced the running of other processes related to the accounts section of the Department due to the limited human resources available."*
- All incorrect overtime payments *"... have been addressed by this end"* and *"Preparations have already taken place within this Department to facilitate the introduction of time and attendance*

verification systems within the different fire stations."

- Since replacement of duty is allowed within CPD, *"... measures were put into place to ensure that persons may apply for a change of duty only in exceptional cases."* Furthermore, *"A system which is endorsed by the relevant SO and approved by the Director was also put into practise to ensure that changes are controlled."*

  Whilst Management acknowledges that splitting of shifts *"... may be feasible for a large scale organisation, the same may not apply for an organisation like the Civil Protection Department which holds a limited workforce."*

- With respect to VL application forms, *"... measures have been taken to ensure that all vacation leave records are updated."* Furthermore, *"The Department will also look into a system of automating the vacation leave records, however, the Department also welcomes the introduction of a valid Time and Attendance system which would otherwise address this issue altogether with the other forms of absenteeism."*

- The two officers in charge of Salaries have been trying to sort the personal record sheets ever since they took over this office. *"This activity is on-going and is expected to last a year to fully complete the updating process. Contacts with Treasury Department have already been made to obtain the necessary information for this updating process."*

- In order to increase controls over the actual hours worked, eliminate manual data entry and simplify salary calculations, *"CPD welcomes the introduction of an electronic attendance verification system within the Department."*

- Management further stated that *"... more rigid control systems are being put in place to ensure that defaults in the attendance system are mitigated."* Also, *"... the Department has invested in connecting all fire stations to a network and built points so that an attendance verification system is put into place."* In addition, *"... a decision has been taken to ensure that manual inputs are eliminated as far as possible, processes streamlined and more robust systems are introduced"* in order to reduce salaries related inaccuracies.

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 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 care, therapeutic and educational services to female adolescents between the ages of 12 and 17. CVB Financial Statements are the responsibility of the Board of Trustees.

Audit Scope

The National Audit Office (NAO) completed the review of CVB Financial Statements for the year ended 31 December 2009. This review was carried out in terms of Article XVII of the Deed of Foundation of 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. The audit was not exclusively limited to testing the Statement of Comprehensive Income and the Statement of Financial Position as at 31 December 2009, but also focused on management procedures and internal controls, accounting procedures and records.

Since CVB is not funded from public moneys, NAO deems it appropriate not to delve into details of the specific findings. The following are the issues raised:

Key Issue

Previous Years' Weaknesses Still Present

Several issues highlighted in the 2008 Management Letter featured once again in that of 2009, confirming that Management did not take all necessary corrective action. Once again, NAO strongly remcommends that Management acts upon weaknesses highlighted by NAO to ensure that maximum benefit is derived from the annual financial audit.

Control Issues

Fixed Assets

- Accounting for immovable property not in compliance with Board's policy as per Letter of Representation.
- Wrong classification of accounts.
- Lack of a Fixed Assets Register and Room Inventory Lists not updated.
- No disclosure to indicate whether assets were tested for impairment.

Financial Assets

- Investments overvalued.
- Inconsistent reporting.
- Investment wrongly recognised and disclosed.

- Investments valued incorrectly.

Accounting

- An expenditure analysis was not made available, posing a limitation on the audit scope.
- NAO satisfactorily noted that an accounting package was purchased during 2009 and two staff members have undergone training.

Trade and Other Receivables

- Lack of remedial action in respect of amounts previously reported as not due.
- Inaccuracies in 'Trade and Other Receivables'.
- Incorrect accounting for an amount due to CVB.

Income

- Loss of income resulting from a shortfall in annual grants payable by Government.

Trade and Other Payables

- Overstatement in accrued expenses.

Unpresented Cheques

- Three cheques older than six months featured as outstanding in the Bank Reconciliation Statements.

Salaries

- Underpayments in the salary of an officer employed by CVB.

Compliance Issue

Incomplete Documentation

- Supplier invoices and fiscal receipts, amounting to €35,710 and €9,005 respectively, not made available.

Management Comments

Management noted and concurred with most of NAO's findings and recommendations. However, this Office did not receive any reply, or the reply received was not satisfactory, in respect of the following issues:

Previous Years' Weaknesses Still Present

Fixed Assets

- Accounting for immovable property not in compliance with Board's policy as per Letter of Representation.
- No disclosure to indicate that assets were tested for impairment.

Financial Assets

- Investments overvalued.
- Investment wrongly recognised and disclosed.

Accounting

Trade and Other Receivables

- Inaccuracies in 'Trade and Other Receivables'.

Exit Meeting

An exit meeting was subsequently held to discuss the above-mentioned management comments. CVB assured NAO that all recurring issues, highlighted in previous Management Letters, have been sorted out. During this same meeting, CVB informed NAO that due to the nature of the entity it has established policies which do not entirely fall in line with International Accounting Standards. It was agreed that a policy document would be drawn up by CVB and presented to NAO for clarification purposes. NAO informed CVB that the presentation of this document would not preclude it from reporting issues which are not in compliance with International Accounting Standards. Such policy document was received by NAO late in June 2011 and its contents will be analysed in due course.

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